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BY THE COMPTROLLER GENERAL

**Report To The Inspector General,
Department Of Commerce**

OF THE UNITED STATES

**Compliance With Professional
Standards By The Commerce
Inspector General**

GAO has initiated a series of "quality assessment reviews" of statutory inspectors general and other federal internal audit organizations. GAO's first review, which was conducted at the Department of Commerce Office of Inspector General, focused on whether audits were conducted in accordance with generally accepted government auditing standards and whether investigations were conducted in accordance with professional standards being developed for investigations.

The Inspector General satisfactorily complied with a number of professional standards. However, corrective actions are needed to bring the Inspector General into satisfactory compliance with certain aspects of other standards. Also, improvements are needed in the Inspector General's written quality-control policies and procedures to ensure better compliance with professional standards.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-217979

The Honorable Sherman M. Funk
Inspector General
Department of Commerce

Dear Mr. Funk:

This report summarizes the results of our review of the Office of Inspector General's compliance with professional standards. This is the first of a series of reviews planned for federal inspectors general and internal audit organizations.

The report contains recommendations to you. Please advise us of the actions you take on these recommendations.

Sincerely yours,

A handwritten signature in cursive script that reads "Charles A. Bowsher".

Comptroller General
of the United States

Enclosure

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EXECUTIVE SUMMARY

Statutory offices of inspectors general (OIGs) and other federal internal audit organizations play an important role in preventing and detecting fraud and abuse, and in promoting economy, efficiency, and effectiveness in the administration of federal programs and operations. Because of the importance attached to their work, GAO has initiated a series of "quality assessment reviews" of inspectors general and other federal internal audit organizations. This report covers the Department of Commerce Office of Inspector General (OIG), the first in GAO's series of such quality assessments. (See p. 1.)

BACKGROUND

The Commerce OIG conducts three types of assignments--audits, investigations, and inspections. GAO's specific review objectives were to determine whether the OIG

- audits were conducted in accordance with generally accepted government auditing standards;
- investigations were performed in compliance with professional standards being developed by the President's Council on Integrity and Efficiency, the Association of Federal Investigators, and the Association of Directors of Investigations; and
- inspections, a relatively new activity implemented by the Inspector General (IG), complied with the IG's own policies and procedures for documenting observations and recommendations contained in inspection reports.

The above noted professional standards are not absolute measures for quality which must be rigidly applied in all instances, but rather, they are guiding principles for quality to be applied with professional judgment in individual circumstances. GAO uses the terminology "satisfactory compliance" with a professional standard to mean an organization adhered to a professional standard in a substantial majority of situations. However, in some cases, GAO assessed compliance based primarily on the nature

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and significance of the aspect of the professional standard tested.

During the review, GAO met periodically with the IG and his staff to discuss assessment results as well as GAO's observations on other good management practices which the OIG should consider adopting. In addition, GAO provided the IG and his staff with the detailed findings on each audit, investigation, and inspection reviewed.

RESULTS IN BRIEF

The IG satisfactorily complied with a number of professional standards. However, corrective actions are needed to bring the IG into satisfactory compliance with certain aspects of other standards, such as audit work-paper evidence. Also, improvements are needed in the Inspector General's written quality-control policies and procedures to ensure better compliance with professional standards.

**PRINCIPLE
FINDINGS**

Assessment of the
Audit Function

GAO grouped the audit standards into 10 categories in order to assess the Commerce OIG audit function, reviewed 33 audit assignments, and tested other OIG procedures designed to assure quality in its audit work.

GAO found that the OIG's audit function satisfactorily complied with the professional standards in the areas of (1) staff qualifications, (2) organizational and external impairments to independence, (3) individual job planning, (4) reviewing legal and regulatory requirements, and (5) fraud and abuse.

However, corrective action is needed to bring the OIG into satisfactory compliance with certain aspects of the audit standards in the areas of (1) supervision, (2) evidence, (3) internal controls, (4) reporting, and (5) audit follow-up. (See pp. 15-23.)

While the OIG did not satisfactorily comply with auditing standards in some instances, GAO noted only one case in which there was cause to question the adequacy of the OIG's findings. (See pp. 23-24.)

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GAO also noted that the OIG's quality-control system does not adequately communicate to the audit staff the policies and procedures they are to follow to ensure compliance with audit standards in certain areas, such as what constitutes and how to obtain adequate, relevant, and competent evidence. (See pp. 24-26.)

**Assessment of the
Investigation
Function**

The Inspector General Act provides that inspectors general have the duty to conduct investigations relating to programs and operations. GAO used the draft investigative standards mentioned on page i in assessing OIG compliance even though the standards were developed after the OIG had completed most of the cases that GAO reviewed. OIG officials said they intend to adopt and implement these professional standards when they become final and agreed that it was appropriate to use these standards in the review.

GAO reviewed 15 investigation cases, and tested the adequacy of certain OIG procedures designed to assure quality in investigation work.

GAO found that the Commerce OIG satisfactorily complied with professional investigative standards for conducting investigations in the categories of (1) staff qualifications, (2) organizational and external impairments to independence, (3) screening allegations, (4) establishment of a quality assurance program, (5) coordination, and (6) information management.

Corrective action is needed to bring the OIG into satisfactory compliance with certain aspects of professional investigative standards in the areas of (1) due professional care, (2) preserving confidentiality, (3) planning, and (4) reporting. (See pp. 36-42.)

GAO did not identify any instances where there was cause to question the OIG's ultimate findings in the investigations reviewed.

**Assessment of the
Inspection
Function**

The Commerce OIG established a program for conducting a third category of reviewing activity generally referred to as inspections. The Commerce OIG developed policies for conducting

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inspections which include a requirement that report observations and recommendations be supported with work-paper documentation. GAO's initial sample of five completed inspections, selected from reports issued between October 1983 and June 1984, showed that most did not meet the OIG requirement that each report observation and recommendation be supported with work-paper documentation. (See pp. 48-50.)

GAO reviewed an additional five inspection reports during December 1984 and noted that the OIG had made a number of improvements in the inspection function. However, some problems continue in documenting the inspection work. (See pp. 51-52.)

RECOMMENDATIONS

GAO's report recommends a number of corrective actions by the IG to help bring the OIG into satisfactory compliance with professional standards, including closer supervision of the work and additional staff training. To further strengthen compliance with standards, GAO also recommends several improvements in the OIG's quality-control policies and procedures. (See pp. 26-27, 43-44, and 53.)

**AGENCY
COMMENTS**

In a letter dated May 28, 1985, the Commerce IG accepted GAO's recommendations and promised corrective action. According to the IG, in most cases, corrective actions had already been initiated based on information provided by the GAO team during its fieldwork. The OIG is also increasing its quality-assurance efforts, with a particular focus on the adequacy of supervisory reviews by line managers. In addition, the OIG is conducting a comprehensive review this fiscal year of work-paper support for its audit, investigation, and inspection processes. (See pp. 63-64.)

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ABBREVIATIONS

ADI	Association of Directors of Investigation
ADP	Automated Data Processing
AFI	Association of Federal Investigators
AICPA	American Institute of Certified Public Accountants
CGL	Contract, Grant, and Loan
CPA	Certified Public Accountant
FBI	Federal Bureau of Investigation
GAO	General Accounting Office
IG	Inspector General
OIG	Office of Inspector General
OMB	Office of Management and Budget
PCIE	President's Council on Integrity and Efficiency

CHAPTER 1

INTRODUCTION

The Congress, federal officials, and private citizens want and need to know not only whether federal funds are handled properly and in compliance with laws and regulations, but also whether federal agencies are economically and efficiently achieving the purposes for which programs were authorized and funded. They depend to a great extent on the GAO, the offices of inspectors general (OIGs), and other federal internal audit organizations to answer these questions. The reliability of these answers depends on the quality of work these organizations perform.

We believe the quality of the work of the OIGs and other federal internal audit organizations is a matter of great importance. Recently, we have begun conducting "quality assessment reviews" of these organizations' work. Our reviews are designed to assess whether an OIG or other federal internal audit organization is satisfactorily complying with generally accepted government auditing standards and other professional standards. This involves evaluating the organization's quality-control policies and procedures; reviewing and testing a sample of recently completed assignment reports and work-paper files; and reviewing, testing, and evaluating other available evidence. Our reviews are compliance evaluations. They do not evaluate the economy, efficiency, and effectiveness of OIGs or other federal internal audit organizations' activities. Also, we do not redo any of the audits, investigations, or inspections.

This is the first in our series of quality assessment reviews of the OIGs and other federal internal audit organizations. We chose the Department of Commerce OIG because it was a medium-size office which conducted audits, investigations, and inspections--the three major functions most OIGs perform. Our review objectives were to determine if the Commerce OIG conducted audits in accordance with generally accepted government auditing standards and whether investigations performed by the OIG complied with professional standards being developed by the President's Council on Integrity and Efficiency, the Association of Federal Investigators, and the Association of Directors of Investigation. The Commerce Inspector General (IG) had not adopted any specific set of professional standards for guiding inspections, a relatively new activity implemented by several IGs, which generally are designed to provide observations more limited than audits and investigations of agency operations. Our review of the inspection function was limited to assessing whether the OIG complied with its own policies and procedures for documenting observations and recommendations contained in inspection reports.

We recognize professional standards are not absolute measures for quality which must be rigidly applied in all instances, but rather, they are guiding principles for quality to be applied with professional judgment in individual circumstances. In our review, we use the terminology satisfactory compliance with a professional standard to mean an organization's adherence to a professional standard in a substantial majority of situations. However, in some cases, we assessed compliance based primarily on the nature and significance of instances of noncompliance with the professional standard tested.

Because no absolute quantitative measurement criteria exist for evaluating compliance with generally accepted government auditing standards and other professional standards, review team members relied heavily on professional judgment. Accordingly, the GAO team members serving on this review were senior-level supervisory staff with extensive accounting and auditing experience. In addition, an experienced Federal Bureau of Investigation (FBI) criminal investigator assisted the review team.

During our review, we met periodically with the IG and his staff to discuss our assessment results as well as our observations on other good management practices which we thought the OIG should consider adopting. In addition, we provided the IG and his staff with our detailed findings on each audit, investigation, and inspection we reviewed.

We conducted our work between May 1984 and March 1985 in accordance with generally accepted government auditing standards. Appendix I gives the details of our scope and methodology.

MISSION, ORGANIZATION, AND ACCOMPLISHMENTS OF THE COMMERCE INSPECTOR GENERAL

The Inspector General Act of 1978, as amended, and other legislation established in the Department of Commerce and in 17 other departments and agencies an Office of Inspector General. The President, with the advice and consent of the Senate, appoints the Inspector General, who directs the office. The IG is under the general supervision of and reports to the Secretary of Commerce. The IG has a Deputy Inspector General, who serves as his principal assistant. The current IG, Sherman M. Funk, was appointed on June 1, 1981, and he officially took office on August 29, 1981.

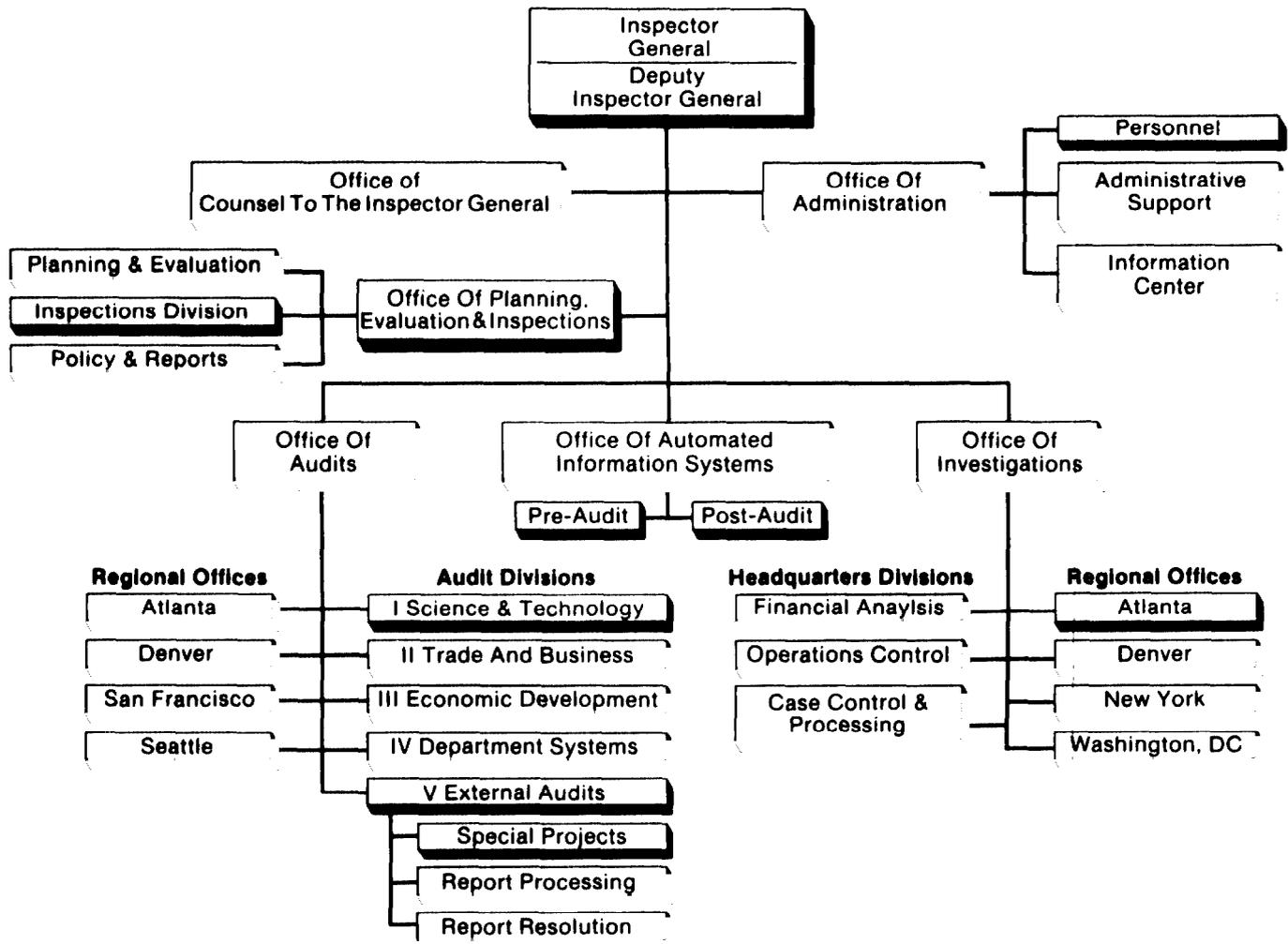
Mission and organization

The Inspector General's mission is to (1) prevent, detect, and reduce fraud, waste, abuse, and mismanagement and (2) promote economy, efficiency, and effectiveness in the Department of Commerce. The OIG primarily accomplishes its mission by conducting audits, investigations, and inspections of

departmental operations. Descriptions of the three OIG functions are discussed later in this chapter.

The OIG carries out its mission through six major organizational units: the Office of Audits; Office of Investigations; Office of Planning, Evaluation and Inspections; Office of Automated Information Systems; Office of Counsel to the Inspector General; and the Office of Administration. With the exception of the Office of Counsel to the Inspector General, the other five offices are each directed by an assistant inspector general. All office heads report directly to the IG. Table 1 displays the OIG organization chart. Table 2 summarizes the OIG positions and budget for fiscal year 1984.

Table 1
U.S. Department Of Commerce
Office Of Inspector General Organization Chart



Source: Department of Commerce Office of Inspector General

Table 2

OIG Positions and Budget
Fiscal Year 1984^a

<u>Office</u>	<u>Positions</u>	<u>Budget</u> (millions)
Inspector General	9	\$0.4
Audits	117	4.9
Investigations	44	1.7
Planning, Evaluation and Inspections	13	0.7
Automated Information Systems	13	0.5
Administration	11	0.9
Legal Counsel	<u>6</u>	<u>0.3</u>
Totals	<u>213</u>	<u>\$9.4</u>

^aActual figures as of September 30, 1984.

Audit

The OIG has two audit offices--Office of Audits and Office of Automated Information Systems. The Office of Audits performs management audits and contract, grant, and loan (CGL) audits of departmental units and activities, except for automated data processing (ADP) matters. Management audits encompass the operating, administrative, and financial activities of units to determine compliance with applicable laws and regulations, economy and efficiency of operations, and achievement of program results. The contract, grant, and loan audits concern selected claims, costs, cost proposals, and cost and pricing data entered into, or proposed by, departmental units to determine performance by loan or grant recipients, or contractors. In addition, the office participates in the OIG inspection program (see p. 6) and conducts the audit effort of joint audit/investigation reviews.

The Office of Audits consists of five headquarters divisions and four regional offices. Headquarters divisions I, II, and III audit the programs, activities, and functions of specific Commerce bureaus. For example, division I is responsible for audits of the National Oceanic and Atmospheric Administration and the National Bureau of Standards. Division IV audits departmentwide activities, such as procurement, travel, payroll, and other administrative systems. All four divisions perform management audits. Division V primarily conducts the contract, grant, and loan audits and, as appropriate, reviews audits performed by state or local governments or other independent audit organizations. The Atlanta, Denver, San Francisco, and Seattle regional offices,

which are each directed by a regional inspector general, assist in or manage contract, grant, and loan audits; management audits; inspections; and joint audit/investigation reviews.

The other audit office is the Office of Automated Information Systems. The office performs management audits of established ADP systems and new ADP systems being designed or acquired; participates in the OIG inspection program; and conducts the ADP audit effort of joint audit/investigation reviews. In 1983, the office was originally established as a division within the Office of Audits. Because of the rapid rise and complexity of computer-related fraud and mismanagement, the IG separated the division from the Office of Audits in April 1984 and established it as a new unit headed by an assistant inspector general reporting directly to the IG.

Investigation

The Office of Investigations conducts investigations of criminal and administrative wrongdoing involving departmental employees, programs, activities, and functions. The office investigates activities which constitute a violation of laws, rules, or regulations; mismanagement; gross waste of funds; and abuse of authority. In addition, the office participates in the OIG inspection program and conducts the investigative effort of joint audit/investigation reviews. The office consists of three headquarters divisions and four regional offices. The headquarters divisions screen prospective applicants for Commerce financial assistance to determine if they have satisfactory credit ratings and do not have criminal backgrounds; provide financial analyses for major cases; conduct a quality assurance program; and perform information and statistics management. The Atlanta, Denver, New York, and Washington, D.C., regional offices, which are each directed by a regional inspector general, perform all the investigative work. The Washington, D.C., regional office also operates the OIG hotline.

Inspection

The Office of Planning, Evaluation, and Inspections operates the OIG inspection program. The OIG defines inspections as examinations, other than audits or investigations, of activities or programs to evaluate the effectiveness and efficiency of operations; compliance with laws and regulations; and/or the effectiveness of techniques to detect and prevent fraud, waste, and mismanagement. The OIG inspection program reviews the activities of a single organizational entity instead of reviewing a single program or function across several organizational entities. While not as comprehensive as audits or investigations, the OIG believes that inspections enable it to cover more departmental units and activities with fewer resources. Further, the inspections generally provide more immediate and timely feedback to program

managers. In some cases, inspections may provide source information for criminal investigations or in-depth audits.

In addition, the office, which consists of three divisions, performs a number of other functions. The office reviews and evaluates OIG plans and budgets; monitors OIG operations; conducts a quality assurance program; prepares the OIG semiannual report to the Congress; and performs other functions related to planning and evaluation.

Other

Two other offices also aid the OIG in carrying out its mission. The Office of Counsel to the Inspector General provides the OIG day-to-day legal assistance on matters relating to audits, investigations, and inspections. In addition, the Office prepares OIG comments on legislative and executive proposals.

The Office of Administration is the OIG administrative support arm. The Office, which consists of three units, provides personnel management services, develops the budget, monitors and controls expenditures of funds, develops in-house training programs, maintains a research information center, and performs other related administrative functions.

OIG reorganizations

During the past 3 years, the OIG has had two major reorganizations. In late 1982, the OIG reduced the number of regional offices from 19 to eight and grouped all Washington, D.C., area employees into one building instead of four. In addition, the OIG made other changes, such as reorganizing the headquarters audit structure along functional lines, increasing the scope and coverage of the management audit program, and establishing a system to track and record investigative data. In April 1984, a second reorganization established, according to the OIG, a more realistic correlation between headquarters offices and assigned missions. Some of the significant changes are discussed below:

- The Office of Automated Information Systems was separated from the Office of Audits and established as a unit reporting directly to the IG.
- The responsibilities of the regional inspectors general for investigations were increased, thereby reducing the need for headquarters oversight. Two divisions were abolished, and the personnel were assigned to other units.
- The Office of Planning and Evaluation was redesignated as the Office of Planning, Evaluation, and Inspections to reflect the importance of inspections as an OIG function.

Reported accomplishments

The Inspector General Act of 1978 requires each IG to submit to the agency head semiannual reports for transmittal to the Congress summarizing the activities of the office during the immediately preceding 6-month periods ending March 31 and September 30. For fiscal year 1984, the Commerce OIG reported in its two semiannual reports a number of significant activities, as outlined in table 3. The IG has reported that, with some exceptions, program officials throughout the department have initiated corrective actions in response to the findings and recommendations of audits, investigations, and inspections.

Table 3

OIG Summary of Significant Activities^a
Fiscal Year 1984

Convictions/indictments	17
Administrative sanctions	23
Audit reports	901
Inspection reports	27
Monetary results of investigations ^b	\$112,744
Savings--management commitments	
--to recover funds ^c	\$8,390,430
--to use resources more efficiently ^d	\$8,561,825

^aWe did not validate any of these figures.

^bIncludes amounts determined to be owed to the federal government, but does not necessarily reflect the actual monetary recoveries.

^cRepresents a quantification of agency action in response to IG recommendations to recover and/or reprogram expenditures, call loans, and cancel guarantees, as well as the voluntary restitution of funds.

^dRepresents a quantification of agency action in response to IG recommendations to prevent improper obligations for expenditure of agency funds or to improve agency systems and operations, and thereby avoid further unnecessary expenditures.

CHAPTER 2

ASSESSMENT OF THE AUDIT FUNCTION

The Inspector General Act of 1978 requires the IG, in carrying out his audit responsibilities, to comply with generally accepted government auditing standards established by the Comptroller General. These standards are contained in Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. The standards are general in nature and, as such, permit an OIG flexibility in developing and implementing policies and procedures for assuring compliance with the standards.

We separated the audit standards into 10 categories which we used for assessing the Commerce OIG audit function. (See app. I, p. 59.) We assessed the OIG's compliance with audit standards by reviewing and evaluating 33 assignments, which included reports and applicable work papers and job files. In addition, we assessed the OIG's annual audit planning process. For this assessment, we used OMB Circular A-73, Audit of Federal Operations and Programs, because the audit standards do not address annual audit planning. Further, we evaluated the OIG's written policies and procedures for implementing the audit standards. The Commerce IG agreed that our approach was reasonable for evaluating the audit function.

The OIG satisfactorily complied with 5 of the 10 categories of audit standards in the areas which we tested. These five categories of standards and our observations of compliance are:

Standards

Observations

Staff qualifications

The OIG satisfactorily complies with the standard with regard to auditor education and/or experience, and training. However, we noted that auditors need more technical training in areas such as the review, evaluation, and testing of internal controls.

Independence

The OIG satisfactorily complies with the standard with regard to organizational independence. Also, we found no evidence of external impairments to independence in our reviews of OIG audits.

Individual job planning

The OIG satisfactorily complies with the standard. However, we noted that some audit plans needed certain elements that standards suggest for inclusion.

Legal and regulatory requirements

The OIG satisfactorily complies with the standard with regard to conducting compliance reviews of pertinent laws and regulations that OIG auditors identified.

Fraud and abuse

The OIG satisfactorily complies with the standard.

In addition, the OIG satisfactorily complies with the annual audit planning requirements of OMB Circular A-73.

However, corrective action is needed to bring the OIG into satisfactory compliance with certain aspects of the audit standards in the areas of:

- supervision,
- evidence,
- internal controls,
- reporting, and
- audit follow-up.

COMPLIANCE WITH STANDARDS

The following sections discuss our assessment of the OIG's compliance with audit standards.

Staff qualifications

Audits vary in purpose and scope, and meeting the objectives of each assignment can require a variety of skills. The standards require that the staff on an assignment collectively possess adequate professional proficiency for the tasks required. Audit organizations can ensure that they meet these requirements through their hiring practices, job staffing, and formal training programs.

To assess compliance with the staff qualifications standard, we examined the work papers for our 33 sample audits to determine if the audit staff possessed adequate professional proficiency to conduct the audits. In addition, we discussed with the audit managers or supervisors the staff qualifications and the management decision-making process used in assigning staff to each audit reviewed. Also, we discussed with the OIG personnel officer the education and experience requirements the OIG considers when hiring individuals, and we reviewed training records for selected audit staff to determine the types of training received during the 2-year period ending October 1, 1984.

The OIG satisfactorily complies with this standard. The OIG only hires individuals that meet the minimum Office of Personnel Management requirements for the accounting and auditing related job series. Also, we found that for the audits we reviewed, the OIG-assigned personnel collectively possessed the qualifications needed to conduct their audits adequately. In addition, most staff members received some formal job-related training during the past 2 years; the typical courses taken included ethics training, Certified Public Accountant or Certified Internal Auditor examination review courses, and various conferences and seminars. With the exception of several ADP-related courses, however, we found that most auditors had not taken training courses during the past 2 years in technical areas such as the use of statistical techniques in auditing; the review, evaluation, and testing of internal controls; or the adequacy, relevancy, and competency of evidence.

We sent a questionnaire to OIG professional staff to obtain their views on several issues. The audit staff responses on training revealed that 85 percent of the professional staff had some job-related training in the past 2 years. However, about 40 percent of the staff felt that the training received during that period was marginally adequate to very inadequate. In addition, 60 percent answered "no" or "generally no" when asked if they received or were advised of a specific plan of action for acquiring the work experience, education, and training necessary for continued development and progress in their careers.

A key factor to the successful operation of any audit organization is the ability of its staff to meet efficiently and effectively the objectives of each assignment. It is primarily through formal and on-the-job training programs that auditors obtain a knowledge and understanding of new techniques and methodologies that may be useful on future assignments, and learn of trends or actions that may affect the organizations, activities, or functions included within their audit universe. An audit organization can also use these programs to reinforce and update staff knowledge of its policies and procedures for performing the various aspects of an audit and to demonstrate new audit techniques and methodologies it expects the staff to use.

In summary, while the OIG satisfactorily complies with the staff qualifications standard, we believe increased management attention is needed to strengthen the OIG's training program.

Independence

The standards state that in all matters relating to the audit work, the audit organization and the individual auditors must be free from personal or external impairments to independence, must be organizationally independent, and must maintain an independent attitude and appearance. We evaluated

the extent that the OIG audit function is free of organizational and external impairments to independence; we did not evaluate whether the auditors were individually free of personal impairments.

Regarding organizational impairments to independence, the standards state that the organizational structure of the government agency can affect an auditor's independence. To achieve maximum independence, auditors and their audit organizations should report to the head or deputy head of the government entity and should be organizationally located outside the staff or line management function of the entity under audit.

The OIG satisfactorily complies with the organizational aspect of the independence standard. The organizational placement of the IG, directly reporting to the Secretary of Commerce as prescribed by the Inspector General Act of 1978, locates the audit unit outside the staff or line management of Commerce organizations and people who might be audited. For example, an official in a Commerce agency has no authority to specify how the OIG will conduct an audit. The IG's semiannual report to the Congress, as specified in the IG act, also provides a guard against inappropriate intrusions on the OIG's organizational independence.

The standards further specify that in all matters relating to audit work, audit organizations and auditors must be free from external impairments and shall maintain an independent attitude and appearance. Factors external to the audit organization that can impair independence include:

- interference in the assignment of audit personnel,
- restrictions on funds or other resources dedicated to the audit organization,
- authority to overrule or to influence the auditor's judgment as to the appropriate content of an audit report or selection of what is to be audited, and
- influences that jeopardize the auditor's continued employment for reasons other than competency or the need for audit services.

In no case did we find any indications of external impairments to independence on the OIG or its auditors. We reviewed the work papers and other files and discussed external impairments with the audit managers and supervisors for all selected audits.

In an earlier GAO report (Impact of Administrative Budget Procedures on Independence of Offices of Inspector General, GAO/AFMD-84-78, September 26, 1984), we pointed out that the federal budget process should be modified to enhance the

independence of the inspectors general. The Department of Commerce has accepted our recommendation and revised its budget procedures, which had permitted budget modifications to be made by Commerce program managers, to provide that the Deputy Secretary of Commerce receive the OIG's unmodified budget request and that the IG may meet with the Deputy Secretary to present the OIG's budget.

Finally, the establishment of the OIG's own personnel office in October 1982 further enhanced independence. As a result, all matters relating to the employment, promotion, and retention of OIG personnel are now handled within the OIG, rather than by the departmental personnel office, which is subject to OIG review.

Individual job planning

The standard requires that audit organizations thoroughly plan their work. A written audit plan should be prepared for each audit. Planning should include consideration of coordination with other government auditors, personnel used on the assignment, work done, and the format and general content of the report.

The quality of audit work and related reports depends, in large part, on the degree to which tests and procedures for performing the work are designed to meet planned objectives, and to which the information obtained or developed during the audit supports the facts and conclusions reported. The preparation of a written audit program is an integral part of the planning function for each assignment. Careful development of the audit program helps ensure that the auditors perform all necessary steps to meet the audit objectives and that they develop sufficient, competent, and relevant support for all findings, conclusions, and recommendations. An audit program also provides a means for assigning work to the auditors, a basis for a summary record of work done, and a means to permit higher-level review and evaluation of the audit work.

The OIG satisfactorily complies with most aspects of the individual job planning standard. Our review of the sample cases indicated that, during the planning phase of an audit, the OIG auditors coordinated with other audit units; assessed staff requirements; obtained legal counsel, when necessary; conducted preliminary surveys, when appropriate; and obtained a mutual understanding of the audit scope and objectives with the auditee. However, audit programs prepared for each assignment often excluded some of the elements suggested by standards, as discussed below.

The standard states that the programs should generally contain such information as background data, purpose and scope of the audit, audit objectives, definition of unique terms, special instructions to staff, audit procedures, and general

report format. In the 33 sample audits, we found a number of instances where the audit programs did not contain background information, purpose and scope of the audit, definition of unique terms, special instructions to staff, and general report format.

After weighing the nature, relative significance, and frequency of instances of noncompliance with each element of the job-planning standard, we concluded that the OIG was in satisfactory compliance from an overall perspective. However, increased management attention is needed to ensure better compliance with the standard in the area of audit program content.

Legal and regulatory requirements

The standard requires auditors to review auditee compliance with applicable laws and regulations. These reviews are necessary so that auditors can gain an understanding of the expected results of the program or activity being reviewed and can determine compliance with laws and regulations that could materially affect an entity's financial statements or the acquisition, management, and utilization of the entity's resources.

The OIG satisfactorily complies with this standard with regard to conducting compliance reviews of pertinent laws and regulations that OIG auditors identified. We did not verify that OIG auditors adequately identified all applicable laws and regulations or that the compliance determinations made were accurate. In 28 of 33 audits we reviewed, the OIG auditors conducted compliance reviews of pertinent laws and regulations that they identified. We did note, however, a lack of OIG audit testing of internal control systems developed to ensure compliance with laws and regulations. (See p. 19 for a discussion of these problems.)

Fraud and abuse

The standard requires that auditors be alert to situations or transactions that could indicate fraud, abuse, and illegal acts. If such evidence exists, they should extend audit steps and procedures to identify the effect on the entity's operations and programs.

The OIG satisfactorily complies with the standard. In reviewing the audit work papers and talking with the audit managers and supervisors for our sample cases, we identified 4 of 33 audits where indications of fraud or abuse existed. The OIG auditors appropriately expanded the original audit scope and testing, obtained assistance from staff with specialized skills, coordinated with OIG investigators, and/or expeditiously reported information about potential fraud and abuse to appropriate agency and law enforcement officials.

Annual audit planning

Although the standards do not address annual audit planning, we consider this an important function for an OIG audit operation, and, therefore, included the Commerce OIG's annual audit planning process in our review. OMB Circular A-73, Audit of Federal Operations and Programs, requires each audit organization to identify the organizations, programs, and activities within its department or agency that are subject to audit. From this universe, it must develop, at least annually, a plan of scheduled audits that should be reviewed with the head or deputy head of the agency.

The OIG satisfactorily complies with OMB Circular A-73. The OIG has identified about 1,035 auditable entities within the Department of Commerce and annually prepares a plan that identifies all scheduled audits for the year. The IG uses a formal process to develop its annual plan. In this process, the assistant IGs for audit operations, division directors, and regional IGs for audit identify potential audit work for the coming year and rank each potential assignment using a standard set of rating factors which the IG has established. The IG, deputy IG, and other OIG officials review and evaluate all proposals. The OIG staff discusses the draft with agency officials, prepares the annual plan, and forwards it to the Deputy Secretary and assistant secretaries and administrators for comment and identification of additional potential audits. Upon receipt and evaluation of the agency officials' comments, the OIG finalizes and issues the plan.

An analysis of the OIG's fiscal year 1985 annual audit plan revealed that the organization scheduled economy and efficiency, program results, and financial and compliance audits. The plan did not, however, include any audits of agency financial statements. We believe future OIG annual audit plans should consider including audits of Commerce's financial statements. By performing audits of (1) the agency systems used for developing financial statements and (2) the resulting financial statements, the OIG will develop information on system integrity and reliability and/or the reasonableness of the agency's financial statements and other financial and management reporting.

Supervision

The standard requires supervisory reviews of the audit plan, audit work and related reports, and the audit staff's judgment. Also, the standards state that assistants are to be properly supervised. Audit managers and supervisors must review and comment on all work products from individual work papers through draft reports and retain evidence of these reviews in the work papers. Supervisory reviews should determine whether the audit plan is adequate; auditors perform their work in conformance with audit standards; the audit programs are

followed, unless deviations are justified and authorized; the work papers adequately support findings and conclusions and provide sufficient data to prepare a meaningful report; and the audit objectives are met. Therefore, supervision is particularly important for ensuring audit quality. We believe this standard requires a very high degree of compliance.

The OIG does not satisfactorily comply with the standard. When planning audits, OIG audit managers and supervisors provided assistance or advice to direct their staff in setting the audit scope and objectives, developing audit programs, determining audit methodologies and techniques, and determining staff requirements. However, supervisor responsibilities go beyond the planning phase. Once the actual audit work begins, audit managers and supervisors must review their staff's work to ensure compliance with standards.

Audit managers and supervisors did not adequately perform their review responsibilities on a number of audits. On 11 of the 33 sampled assignments, we found no written evidence that either an audit manager or a supervisor reviewed the subordinates' work, that they resolved points raised, and that the staff revised work papers, as necessary. In addition, we found no written evidence that audit managers or supervisors concluded that the audit work conformed with auditing standards (21 of 33, or 64 percent), auditors completed all audit program steps (21 of 33, or 64 percent), work paper support was adequate (19 of 33, or 58 percent), or audit objectives were met (19 of 33, or 58 percent).

Ensuring audit quality and professional reports requires proper supervision from the planning through the report-writing phases of an assignment. Supervision adds seasoned judgment to the work done by less experienced staff and provides necessary training for them. Noncompliance with this standard can result in inadequate audit work and unsupported reports. We did identify some such cases, and they are discussed in the evidence section below. One approach to holding supervisors accountable is through the annual appraisal process. Currently, this process does not ensure that audit managers, supervisors, and division directors are responsible for ensuring that their staff and all work conform with the standards.

Evidence

The standards require auditors to obtain sufficient, competent, and relevant evidence--physical, testimonial, documentary, and analytical--to afford a reasonable basis for their judgments and conclusions. A written record of the auditors' work must be retained in the form of work papers, which are complete, accurate, clear, legible, and relevant. Auditors can rely on other auditors' work once they satisfy themselves as to the capabilities, independence, and performance of such work.

In testing compliance with the evidence standard, we determined whether all work indicated in the audit program was signed-off by the individual who performed it and was documented in the work papers; whether work papers were logically organized, clear, and legibly prepared; and whether evidence was sufficient, competent, and relevant to the audit objective and supported the auditors' conclusions.

Sufficient, competent, and relevant evidence is important for ensuring quality reports, and we believe this standard also requires a very high degree of compliance. The OIG satisfactorily complies with the standard in some ways. OIG work papers were logically organized, clear, and legibly prepared. Auditors obtained audit support through physical examination, observation, computation, or inspection and, where appropriate, from independent sources.

The OIG does not, however, satisfactorily comply with the evidence standard in two areas. In 10 of the 33 sampled audits, we identified cases where the audit work papers did not contain enough factual and convincing information on all areas reported on to allow us to verify factual statements in audit reports. The deficiencies noted were in specific segments or sections of the audit, but did not involve the support for an entire audit assignment. Problems identified included no work-paper support for numerical data contained in reports and insufficient substantive testing of auditee books and records. For example, the auditors on one assignment prepared a work-paper schedule showing the amount owed one agency organization by another agency organization. The auditors cited this work-paper as the evidence supporting two figures contained in the audit report. The schedule contained no indication of audit testing of any of the amounts listed in the receipts or disbursements columns and did not identify other work-paper documentation that showed such testing.

Another area where the OIG does not satisfactorily comply with the evidence standard is OIG auditors' use of the work of other organization auditors. This standard applied to six of our 33 sample cases. In four of the six, OIG auditors did not perform tests or take other steps to assure themselves that the other auditors' work complied with auditing standards.

"Referencing" is a process that helps ensure the adequacy of evidence. In this process, an experienced auditor with no involvement on an assignment compares reported information with work-paper support. Although not required by audit standards, it is a useful technique that can help ensure quality reports. We found that the OIG only performed this referencing function for 40 percent of the sample audits. Currently, the OIG has no other quality assurance program that requires independent reviews of individual audit assignment compliance with standards to ensure the accuracy of report information.

OIG reports can be an invaluable management tool. Their conclusions and recommendations form the basis for many management actions to improve the economy, efficiency, and effectiveness of agency programs and activities. However, the issuance of reports which may be based on inadequate documentary support could reduce the credibility of an entire audit organization within its department or agency and the audit community.

Internal controls

Internal controls are the plans of organization, methods, and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports. Internal controls may be classified as accounting controls or administrative controls.

The standard requires that auditors study and evaluate internal control systems applicable to the organization, program, activity, or function under review. Although the standard on internal control reviews applies to all financial and compliance, economy and efficiency, and program results audits, auditors should apply this standard with flexibility since there are acceptable reasons for not studying and evaluating internal controls. These reasons include:

- the auditor concludes that the audit can be performed more efficiently by expanding substantive audit tests, thus placing very little reliance on the internal control system; or
- the existing internal control system contains so many weaknesses that the auditor has no choice but to rely on substantive testing, thus virtually ignoring the internal control system.

If internal control studies are not made because auditors determine that the studies are not necessary or important considering the specific objectives or scope of an audit assignment, this would not be a deviation from auditing standards, in our opinion. Therefore, all audit reports must clearly describe the objectives and scope of work to avoid any misunderstanding concerning what the auditors did or did not do on internal controls. Also, where applicable, the scope and methodology section of audit reports should clearly describe what the auditors did in evaluating pertinent internal control systems and the extent to which the auditors relied on the internal control systems in determining the scope of their work.

The OIG does not satisfactorily comply with the internal control review standard. We examined the audit work papers and held discussions with audit managers and supervisors to determine the extent to which OIG auditors identified pertinent internal control systems and tested adherence to prescribed systems, policies and procedures. In 9 of the 33 sample cases, the OIG auditors concluded, based on the stated audit objectives, size of auditee, or other considerations, that internal control system work was not required. We concurred and concluded that this standard was not applicable in these particular cases. We found that OIG auditors did not identify all pertinent internal control systems in 14 of the remaining 24 audits reviewed. In these cases, we found no indications that the OIG auditors had determined whether the internal control systems were necessary or important considering the specific objectives or scope of the audit assignment. In responding to our questionnaire, 33 percent of the audit staff felt that OIG communication of its policies and procedures concerning internal control system identification and testing was inadequate or very inadequate.

For the 10 audits in our sample where OIG auditors had identified pertinent internal controls, we found instances where the auditors did not perform an adequate evaluation of the control systems. However, the workpapers did not disclose and the auditors could not provide us with an acceptable reason for not conducting an adequate evaluation of internal controls.

We also found that, on 61 percent of the audits, auditors did not identify the internal control systems established to ensure that the auditee adhered to the applicable laws and regulations. Where auditors did identify the control systems (39 percent of the cases), they did not test compliance with established control system policies and procedures 21 percent of the time. Again, the work papers did not disclose and the auditors could not provide us with an acceptable reason for not testing compliance with the control system policies and procedures.

OIG auditors substantially relied upon ADP generated information on two of our sample assignments. On one of these cases, the auditors did not test the controls over the ADP system or use other procedures to determine system and data reliability or integrity, or disclose in their report that they did not perform this work. Our questionnaire results showed that 48 percent of the audit staff felt that the OIG had not adequately communicated its policies and procedures for evaluating ADP system controls.

Identifying internal control systems and performing tests to determine the degree of compliance with system policies and procedures help auditors determine the extent of reliance that they can place on the system and the data, records, or other

information generated from that system. Not performing the internal control work, unless justifiably based on one of the exceptions cited earlier, can result in questions about the adequacy and competency of the evidence developed during the audit and ultimately affect the credibility of the audit report.

Reporting

Generally accepted government auditing standards contain five separate standards for reporting: report form, distribution, timeliness, content, and presentation. The following sections summarize the results of our review in each of these areas.

Report form

The standard requires that written audit reports be prepared giving the results of each government audit. We did not evaluate OIG compliance with this standard. Rather, we selected for review only assignments that resulted in audit reports.

Report distribution

The standard states that federal audit organizations must submit their reports to appropriate officials of the organization audited and to appropriate officials of the organizations requiring or arranging for the audits, unless legal restrictions or ethical considerations prevent it. Audit organizations should also send copies of reports to officials who may be responsible for taking action on audit findings and recommendations and to others authorized to receive such reports. Unless restricted by law or regulation, they should make copies available for public inspection.

The OIG satisfactorily complies with this standard. The OIG appropriately distributed all reports resulting from the audits in our sample. Those receiving the reports included officials of the audited organization and officials of the Commerce unit responsible for taking actions on findings and recommendations. In addition, audit reports were available to the general public, upon request.

Report timeliness

The standard states that reports should be issued on or before the dates specified by law, regulation, or other special arrangement. They should also be issued promptly to make the information available for timely use by management and legislative officials.

We found indications that the OIG needs to be more attentive to report timeliness. However, assessing compliance with this standard is difficult because the standard does not

specify what will be timely, except when a law, regulation, or special arrangement specifies a due date. We evaluated each report by comparing the actual report issue date with the planned issue date as recorded on audit planning documents contained in the work papers. We used the planned issue date because Commerce OIG audit reports generally are not required to be issued by particular dates specified by law, regulation, or other special arrangement. The OIG established the planned issue dates during the planning phase of the audit, based upon OIG criteria for the length of audit assignments as well as the scope, objectives, and, when applicable, the preliminary survey results. In 45 percent of the cases, the OIG did not issue a report on the originally established issuance date or within a reasonably close period thereafter. In addition, 39 percent of the report users responding to our questionnaire indicated that audit reports were either untimely or of marginal value in terms of timeliness, compared to 61 percent who felt that the reports were timely.

Report content

The standard requires that audit reports include statements on audit scope and objectives, generally accepted government auditing standards, internal controls, comments of agency officials, recommendations for corrective actions, and other items.

The OIG satisfactorily complies with the portion of the standard requiring disclosures concerning audit scope and objectives, and recommendations for actions. Eighty-eight percent of the reports contained this information.

The OIG does not satisfactorily comply with other aspects of the standard. The results of our evaluation of audit report compliance with other content standards follow:

- Thirty-seven percent of the reports contained no indication of pertinent views of management officials on the audit findings, conclusions, or recommendations.
- Sixty percent did not include the required statements concerning positive and negative assurances on compliance with applicable laws and regulations.
- Thirty-six percent of all sample audits excluded statements that the audits were made in accordance with generally accepted government auditing standards or statements detailing where the audit deviated from these standards.

We also noted instances in which the audit reports contained no description of material weaknesses in internal controls when the work papers indicated that such weaknesses existed.

Report presentation

The standard requires that reports be objective, clear, concise, and convincing. The OIG satisfactorily complies with this element of the standard. OIG audit reports presented information in a clear and concise manner, and adequately presented the condition and criteria for audit findings. We did, however, identify instances where reports did not discuss the cause and effect of findings when that information would have helped management develop and implement appropriate corrective actions. In judging whether an audit report was convincing, we based our assessment only on the information contained in the report. As noted earlier, in some cases, we did not find convincing evidence in work papers to document factual statements in reports.

To provide report users with an understanding of what and how the auditors audited and, therefore, to provide a basis for reader judgment on auditor objectivity and the fairness of the reported findings, conclusions, and recommendations, audit reports should contain a clear description of audit scope and methodology used to test internal controls, transactions, and compliance with laws and information to support the reports. The OIG does not satisfactorily comply with this element of the standard. We found that 81 percent of the audit reports did not identify the universe of transactions, the methods used to select samples from the universe, or the sample within that universe that was tested.

The standard requires that audit reports identify limitations or qualifications to the scope of the work performed that affected the job. The OIG does not satisfactorily comply with this element of the standard. We found that 56 percent of the reports contained no such statements in those cases where, based on our review of the work papers and discussions with audit supervisors and managers, they were needed.

Our questionnaire results showed that 81 percent of the OIG audit report users felt that the reports clearly presented the audit results. However, 30 percent felt that the evidence used in the reports to support findings was marginally adequate, inadequate, or very inadequate.

The audit report is an audit organization's primary tool for communicating its audit findings, conclusions, and recommendations to the audited entity and those responsible for taking actions to make programs more economical, efficient, and effective. Omission of any of the requirements established by generally accepted government auditing standards can result in unconvincing or unclear reports and reduce the degree of agency action on, or attention to, the findings and recommendations.

Audit follow-up

The standard requires that auditors follow up on findings from previous audits to determine if the auditee had taken appropriate corrective actions.

The OIG does not satisfactorily comply with the audit follow-up standard. At the time of our review, the OIG was in the process of strengthening its audit follow-up system to keep the records about agency corrective actions in one information system for all audit divisions. We did not audit the OIG's formal follow-up systems. In our opinion, however, the existence of a formal follow-up system does not relieve individual auditors planning and performing specific audits of their responsibility to ascertain what problems and weaknesses may have been disclosed in previous audits, and whether they have been corrected or still exist.

In 24 of the 33 cases, our review of OIG work papers, discussions with the auditors, and our own independent inquiries disclosed that the auditees had either not been previously audited, or that the prior audit reports contained no findings or recommendations requiring corrective action. Accordingly, we concluded that the audit follow-up standard was not applicable for these particular cases.

The standard was applicable, however, to the remaining nine cases for which we were able to identify previous audits, audit reports, findings, and recommendations. Because the work papers did not always contain information on prior findings and recommendations, we discussed the extent of audit follow-up with the audit manager or supervisor. In seven of the nine cases, the OIG auditors acknowledged that they did not determine if agreement had been reached on all pertinent previous audit findings and recommendations, if the agreed upon corrective actions had been completed or were in process, or if the corrective actions taken were adequate.

Follow-up on prior audit report findings and recommendations is important because it requires that auditors consider deficiencies or weaknesses that are known to exist at the auditee organization. It provides a basis for evaluating agency management's commitment to efficient and effective program operation. By not including follow-up on these prior findings and recommendations on subsequent audits of the auditee, auditors may duplicate work previously performed or may fail to consider significant work steps that could affect overall conclusions on the current assignment.

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While the OIG did not satisfactorily comply with generally accepted government auditing standards in some instances, we

only noted one audit in which there was cause to question the adequacy of the OIG's findings. In separate audits, both we and the OIG reviewed the same program, during the same general timeframe, with similar audit objectives.

Our review disclosed serious problems in several areas including (1) failure to adequately address user needs in the design of an automated data processing system and (2) failure to properly comply with federal laws and regulations in the procurement of the system. Although both of these issues were specifically included in the OIG audit objectives contained in the assignment plan, our review of the OIG work papers and discussions with the principal staff member on the job disclosed little or no audit coverage of either issue.

ADEQUACY OF QUALITY-CONTROL POLICIES AND PROCEDURES

A quality-control system establishes the policies and procedures that provide the audit organization with reasonable assurance that the organization conforms, in all phases of its work, with professional standards. The organization should clearly identify its objectives and goals (policies), and how, when, where, and by whom the activities that are to produce these objectives and goals will be carried out (procedures). The organization should distribute, or make available, this information to all staff members and ensure that they are thoroughly familiar with and understand such policies and procedures.

The Inspector General established the OIG quality control system in September 1981. The system is embodied in three OIG documents: Office of Inspector General Manual Directives, Inspector General Bulletins, and Staff Memoranda. The manual directives contain the OIG's permanent, overall audit, investigative, and administrative standards, policies, and operating procedures. Inspector General bulletins disseminate officewide policies and procedures that will eventually be incorporated into the manual or that will expire within a short period of time. Staff memoranda provide special or one-time instructions on matters solely within the jurisdiction of specific OIG officials such as the assistant inspectors general or the Counsel to the Inspector General. The OIG may also later incorporate the policies and procedures established in these memoranda into the manual.

The OIG's quality-control system does not adequately communicate to the audit staff the policies and procedures they are to follow to ensure compliance with audit standards. The system contained no procedural guidance in such areas as to what constitutes and how to obtain adequate, relevant, and competent evidence, how to identify and test internal control systems, or what constitutes a timely audit.

In addition, the system discussed supervisory responsibilities only in Merit Pay or General Work Force Plans, which did not address all aspects of supervision required by the standards. For example, the OIG manual contained a GM-14 Merit Pay Plan that states that the "incumbent will be responsible for conducting audits and supervising staff members assigned to him during the year." It requires that GM-14s document and review the documentation prepared by staff members, identify sources of data required, obtain the data or supervise its collection by staff, analyze data collected, and ensure that work-papers prepared by themselves or their staffs provide a basis for conclusions and recommendations. It does not, however, specify the procedures or documentation (i.e., initialing work-paper pages, completing review checklists or standard evidence-of-review forms, preparing review memoranda) required to fulfill this requirement.

The responses to our questionnaire showed that audit staff members felt that the OIG did not adequately communicate its policies and procedures concerning audit operations. For example, the following percentages of staff judged communication as "inadequate" or "very inadequate" in the areas indicated:

- laws and regulations (34 percent),
- internal controls--non-ADP (33 percent),
- internal controls--ADP (48 percent),
- sufficient, competent, relevant evidence (34 percent),
and
- fraud (28 percent).

In addition, 36 percent responded "generally no" or "no" to a question on whether the audit organization communicated its policies and procedures for audit planning to the staff.

OIG actions to develop and
document quality-control policy
and procedure directives

The Inspector General has recognized the need to improve the quality-control system. Inspector General Bulletin 84-1, stated that a large number of the directives that were planned in 1981, when the directive system was established, were not yet written. The bulletin prescribed procedures for writing directives and assigned responsibilities for their completion by December 31, 1984.

In May 1984, the assistant inspector general for audit developed a timetable for completing draft directives on audit operations. The schedule specified target dates for completion of the directives and provided a status report on the

Staff Memoranda. The status report identified those memoranda that would be incorporated into the Inspector General manual, those that had expired or were superseded, and those that should be incorporated into OIG-wide policies.

The Inspector General had issued five of the final directives as of July 1, 1985, including two on "Basic Report Characteristics" and the "Management Audit Report Format," which were issued in January 1985. These two directives contain both policies and procedures that provide the audit staff with sufficient guidance on how to comply with the standards for reporting as well as for the planning and performance of work for individual audits. Revised time frames for all remaining directives call for completion by the end of fiscal year 1985. OIG procedures are not specific as to the distribution of policy and procedure directives and as a result, some directives, including those which have been issued, have only been distributed to top-level OIG managers and not to all audit staff.

CONCLUSIONS AND RECOMMENDATIONS

The Office of Inspector General, Department of Commerce, conducts management audits of agency programs, activities, organizations, and functions; and contract, grant, and loan audits of entities receiving funds through programs operated by department bureaus and offices. Based on our review of 33 sample audit reports and related work papers, and other pertinent information, we believe the OIG satisfactorily complied with 5 of the 10 categories of audit standards which we tested. Also, the OIG satisfactorily complied with the annual audit planning requirements of OMB Circular A-73. However, corrective action is needed to bring the OIG into satisfactory compliance with certain aspects of the audit standards for supervision, evidence, internal controls, reporting, and audit follow-up. In addition, the OIG needs to improve and better communicate to the staff the written quality-control policies and procedures to ensure compliance with standards.

Based on our reviews of audit work papers, related assignment files, and discussions of our findings with OIG officials and appropriate audit managers and supervisors, we believe that several possible reasons exist for the areas where we noted a need to improve compliance with standards. These include the lack of a comprehensive OIG staff manual that communicates policies and procedures to be followed in conducting audits and writing reports that comply with audit standards, inadequate top-management emphasis on and performance of the supervision activities required by audit standards, and the lack of training on the requirements of and actions needed to perform audits in compliance with audit standards. We, therefore, recommend that the Inspector General:

- ensure that the remaining planned revisions to the directive system are completed within the most recently established time frames;
- distribute a copy of the directive system to each staff member;
- require that all auditors take training in those areas in which we identified deficiencies including compliance with generally accepted government auditing standards on supervision, evidence, reporting, internal-control identification and evaluation, and audit follow-up;
- implement a quality assurance program that requires independent reviews of individual audit assignment compliance with standards and ensures the accuracy of report information; and
- hold audit managers, supervisors, and division and office directors responsible, through the annual appraisal process, for ensuring that their staffs and all work performed by them conform with the standards.

AGENCY COMMENTS

In a letter dated May 28, 1985, (see app. II) the IG said he accepted our recommendations and indicated that they would be implemented. He stated that in most cases corrective actions had already been initiated based on information that we had provided the OIG during the review. To check on the implementation of the corrective actions, the IG added that he was increasing quality assurance efforts, with a particular focus on the adequacy of supervisory reviews by line managers. Also, the OIG is conducting an internal review of audit work-paper support during fiscal year 1985.

CHAPTER 3

ASSESSMENT OF THE INVESTIGATION FUNCTION

The Inspector General Act of 1978 provides that inspectors general have the duty to, among other things, conduct investigations relating to programs and operations. Draft standards to guide the conduct of investigations and help ensure their quality have recently been prepared.

In 1984, the President's Council on Integrity and Efficiency (PCIE) issued Interim Quality Standards for Federal Offices of Inspector General, which apply to all OIG functions, including investigations. Also in 1984, the Association of Federal Investigators and the Association of Directors of Investigation wrote proposed Professional Standards for Investigations, which would supplement PCIE standards in guiding the operations of an OIG investigation function.

The standards established by the Comptroller General for audits of federal establishments, organizations, programs, activities, and functions referred to in the Inspector General Act contain some general standards (e.g., staff qualifications, independence) which could apply to the investigation function. However, we used the draft standards for investigations in assessing OIG compliance because they are not only consistent with the applicable Comptroller General's audit standards, but also are more tailored to the investigation function. These draft standards are still subject to change and clarification and were developed after the OIG had completed most of the cases that we reviewed. However, OIG officials said they intend to adopt and implement these professional standards when they become final. The Commerce IG agreed that using the proposed standards would be appropriate and that our approach was reasonable for evaluating the investigation function.

Using this approach, we identified 11 categories of standards to assess the Commerce OIG investigation function. (See app. I, p. 61.) To assess the investigation function in the 11 categories, we examined OIG written policies and procedures for conducting investigations, reviewed 15 sampled investigation cases, and tested the adequacy of certain OIG procedures designed to ensure quality in investigation work. We also sent a questionnaire to OIG investigators to solicit their views on subjects related to our assessment.

The OIG satisfactorily complied with 6 of the 11 categories of proposed professional standards for conducting investigations in the areas we tested. These six categories of standards and our observations of compliance are:

Standards

Observations

Staff qualifications

The OIG satisfactorily complies with the proposed standard with regard to investigator education and/or experience, training, and performance appraisals.

Independence

The OIG satisfactorily complies with the proposed standard with regard to organizational independence. Also, we found no evidence of external impairments to independence in our reviews of OIG case records.

Screening allegations

The OIG satisfactorily complies with the proposed standard.

Quality assurance

The OIG satisfactorily complies with the proposed standard with regard to the establishment of a quality-assurance program.

Coordination

The OIG satisfactorily complies with the proposed standard.

Information management

The OIG satisfactorily complies with the proposed standard.

In one category, directing and controlling, we did not judge whether the OIG satisfactorily complies with any aspect of the standard because of extensive turnover of OIG managers. Most of the current managers had little or no firsthand knowledge of the cases in our sample. However, corrective action is needed to bring the OIG into satisfactory compliance with certain aspects of professional investigative standards in the areas of:

- due professional care,
- preserving confidentiality,
- planning, and
- reporting.

COMPLIANCE WITH PROPOSED STANDARDS

The following sections discuss our assessment of the OIG's compliance with investigation standards.

Staff qualifications

The proposed standards require that the investigative staff collectively possess professional proficiency to conduct

investigations. The standards point out that every investigator does not need to be skilled in all investigation techniques, but the OIG should employ investigators who collectively can carry out the OIG investigation mission. With that in mind, the standards place a responsibility on the OIG to employ qualified people, provide training, and evaluate performance. The standards recognize that certain federal laws and regulations govern staff qualifications.

The information that we reviewed at Commerce indicates that the OIG satisfactorily complies with the staff qualifications standards. However, based on our questionnaire results, some OIG investigators perceive problems with OIG training and performance appraisals. All Commerce OIG investigators are classified in the GS-1811 criminal investigator career series, which means the OIG personnel office found that they satisfied federal Office of Personnel Management education and/or experience requirements for the career series. These requirements include general experience, such as investigating insurance claims, and specialized experience, such as investigating criminal cases. The amount of required experience increases as the civil service grade level increases. Also, certain education achievements can substitute for required experience requirements. For example, a Master's degree in criminology satisfies requirements to be a GS-9 criminal investigator. We did not verify the personnel office's classification of each investigator as a GS-1811. However, an April 1984 department personnel office evaluation found that the OIG personnel office properly classified all 10 positions tested, including two GS-1811 criminal investigator positions. The evaluation team consisted of personnel specialists from other Commerce branches.

In addition to being classified as GS-1811s, we found from the personnel records that about half the investigators had prior law enforcement or inspector general experience with other organizations. In addition, investigators continue their training after they are hired. During the 2-year period ending October 1, 1984, almost every investigator attended one or more training courses which we judged as job-related by the course descriptions. For example, the investigators have taken such courses as a white-collar crime seminar and basic investigator training, which are taught by the Federal Law Enforcement Training Center in Glynco, Georgia. We did not evaluate the content of training beyond reading a description of the course, and we did not determine whether training needs were satisfied for all knowledge, skills, and abilities necessary to be an OIG investigator.

Twenty-seven investigators answered our staff questionnaire. Sixty percent thought that training in the last 2 years adequately or more than adequately prepared them for the assignments that they performed, 28 percent thought the training was marginally adequate, and only 12 percent thought it was inadequate.

The OIG also annually evaluates the performance of its investigators. We reviewed appraisals given to every investigator in 1984. The appraisals noted what supervisors thought were good and poor performances. When poor performance was noted, the records show that the investigators were given training or coaching to improve their work. The 1984 department personnel office evaluation reported that OIG performance appraisals were comprehensively written and adequately supported the assigned ratings.

Sixty-three percent of investigators responding to our staff questionnaire thought their supervisors or other responsible officials during the past 2 years had discussed the performance appraisals with them in sufficient detail to provide a clear understanding of strengths and of needed improvements in their work, 33 percent did not think the discussions were sufficient, and 4 percent were undecided.

Although our review disclosed no significant problems in the areas of training and appraisals, some OIG staff saw things differently in their responses to our questionnaire. We could not ascertain the reasons for staff perceptions because the responses were anonymous.

Independence

The proposed standards on independence require that the OIG and its investigators be free from impairments to doing their work and maintain an independent attitude and appearance. The standards place upon agencies, investigative organizations, and investigators the responsibility for maintaining independence so that judgments used in obtaining evidence, conducting interviews, and making recommendations will be impartial and will be viewed as impartial by knowledgeable third parties.

The standards recognize three types of impairments to independence: organizational, external, and personal. An organizational impairment is one that affects the placement of the investigation function within the structure of the government entity of which it is a part. In this regard, the standards state that the investigative organization should report to the head or deputy head of the government entity. An external impairment is one where individuals outside the OIG restrict its ability to conduct independent and objective investigations. An example of an external impairment to independence is the denial of access to sources of information, including documents and records. A personal impairment is one in which investigators experience difficulty in achieving impartiality because of their views or personal situations. An example of a personal impairment to independence is a financial interest in the individual, entity, or program being investigated.

The OIG satisfactorily complies with the organizational aspect of the proposed independence standards. The organizational placement of the IG, directly reporting to the Secretary of Commerce as prescribed by the Inspector General Act of 1978, locates the investigative unit outside the staff or line management of Commerce organizations and people who might be subjects of investigations. For example, an official in a Commerce bureau which is being investigated has no authority over how the investigation is conducted. With regard to the investigative function being free of external impairments to independence, we did not find any evidence of interference in the OIG records of our 15 sampled investigations or in talking with investigators.

We did not determine whether the OIG investigative staff is free of personal impairments to independence as prescribed by the proposed standards. Government personnel regulations require OIG investigators at the GM-13 level and above to file an annual financial disclosure statement; also, new employees must file within 30 days of assuming duties. An OIG management official must review the statements. We found that OIG investigators submitted the financial disclosure statements for 1984 as required, except for certain newly hired employees whom the OIG did not ask to submit statements within the required 30 days. However, neither the IG nor other OIG management officials signed the statements to indicate management's review. An OIG official confirmed that the lack of management review of the statements had been an oversight. We did not review the financial disclosures to identify impairments to personal independence.

Screening allegations

The proposed standards require that the OIG establish and maintain a well-publicized system for receiving, controlling, and screening allegations from agency employees and other interested persons. Also, the standards require that allegations be promptly screened for appropriate disposition.

The OIG satisfactorily complies with this standard. The OIG has had a hotline and post office box to receive allegations since 1979. The OIG publicizes this operation with posters, business cards, and a listing in the agency telephone directory.

A judgmental sample of 54 hotline calls showed that OIG screening decisions were made in time periods ranging from the day a call was received for 46 calls to 66 days after the call in one instance. OIG records indicate a decision in the latter instance was contingent on the outcome of an OIG inspection.

Of the 54 calls, the records show that the OIG hotline staff took no action on 45 calls because the callers wanted information such as telephone numbers or the callers were making allegations which were under the jurisdiction of another law

enforcement agency. For example, hotline staff referred a caller alleging tax fraud to the Internal Revenue Service. Of the remaining 9 calls, the OIG opened investigations for 5 and referred the other 4 to other officials to obtain responses. The OIG records indicate that investigated allegations include alleged contract abuses and diversion of agency funds. The allegations referred to other officials include alleged drug abuses in a rented office. In our opinion, the OIG screening of these hotline calls was appropriate.

Quality assurance

The proposed standards require that the OIG establish and maintain a quality-assurance program. The standards define quality assurance as an evaluative effort conducted by reviewers external to the units being reviewed to ensure that work performed adheres to established OIG policies and procedures, meets established standards of performance, and is carried out economically, efficiently, and effectively.

The OIG satisfactorily complies with the aspect of the proposed standards calling for the establishment of a quality-assurance program. We did not test the extent to which the quality-assurance program ensures that the work performed by the investigation function adheres to established OIG policies and procedures, meets performance standards, and is carried out economically, efficiently, and effectively. In August 1983, the OIG investigation function established a quality-assurance process which determines operational and administrative effectiveness and efficiency and the degree of compliance with OIG procedures and regulations. The office has conducted five quality-assurance reviews covering all the headquarters and field units. Two or three-member teams of investigators from other OIG investigation units conducted the reviews at the location of the reviewed unit. We reviewed the five quality-assurance reports and inquired about the status of each recommendation. Areas examined included investigation case files, the distribution of workload among staff, coordination with other organizations, file maintenance, and investigator training. OIG officials told us what actions they had taken in response to each of the review recommendations. The OIG has a new round of inspections scheduled in 1985.

Coordination

The proposed standards require that the OIG coordinate its investigations with other OIG activities and with other government organizations to ensure effective and efficient use of resources. The OIG should take steps to minimize duplicative work. Coordination should continue after investigations are completed to ensure necessary action is taken.

The OIG satisfactorily complies with this standard. A system exists for referring matters to Department of Commerce officials and monitoring the way they resolve the matters. Referred matters include issues that are unlikely to be prosecuted or do not necessitate an OIG investigation to resolve. Also, the OIG investigates some matters jointly with other organizations, such as the FBI. In addition, the OIG coordinates investigative work with audits and inspections and, if appropriate, conducts the investigation jointly. Fourteen of 15 investigations that we reviewed were satisfactorily coordinated with other OIG functions and investigative organizations. The remaining case was delayed several months when a regional office waited for instructions from OIG headquarters before completing the investigation.

Information management

The proposed standards require that the OIG store the results of investigations in a manner which allows effective retrieval, cross-referencing, and analysis. According to these standards, the OIG should have

- a system for maintaining investigative case records,
- an index system for accessing investigative case records,
- a system for receiving and processing complaints about department operations,
- criteria on when to initiate an investigation or pursue another course of action, and
- information to perform its responsibilities and to measure its accomplishments.

The OIG satisfactorily complies with the the proposed information standard. The OIG has established

- a filing system for investigative records, which permits their retrieval by case number or by subject;
- a system for screening allegations;
- guidelines on when allegations should be investigated, referred elsewhere, or require no action; and
- a management information system which includes statistics on investigative workload, convictions, indictments, and monetary results.

For the 15 investigations reviewed, the OIG filing system contained pertinent records in an official case file, which is maintained in Washington, D.C. Areas where we found some information-management problems are the retention of

investigator notes in criminal cases and the protection of confidential source identities. However, these areas come under the due-professional-care and preserving-confidentiality standards, which are discussed on pp. 36 and 39, respectively.

Directing and controlling

The proposed standards require that the IG and his staff direct and control OIG operations to ensure that all activities are adequately managed, performance is consistent with professional standards, and periodic internal assessments are made of OIG activities and accomplishments.

Evaluating compliance with this standard presented special problems during our review. In the Commerce OIG, case supervision and review is a responsibility shared by four regional managers. Three of the four regional managers were new and had little or no first-hand knowledge of the investigations that comprised our sample, or the manner in which their predecessors managed the investigations. Consequently, we could not judge whether the OIG satisfactorily complied with this standard.

Some problems, which we discuss later in this chapter, could have been caused in part by ineffective management in earlier periods. However, based on our discussions with the current regional managers and other OIG management officials and on our observations of recent OIG initiatives, the OIG has taken several steps aimed at improving the direction and control of investigation work. We found that the current regional managers

- provide on-the-job training for investigators,
- are knowledgeable about the status of ongoing cases in their regions,
- periodically review pending investigations and provide monthly case progress reports to the assistant inspector general for investigations, and
- review all investigation reports prepared in the field for accuracy and completeness prior to sending them to the assistant inspector general for investigations.

Also, the assistant inspector general for investigations holds periodic conferences with the regional managers to discuss such things as accomplishments, work priorities, and approaches for a more cost-effective operation.

In our staff questionnaire, we asked OIG investigators about several aspects of supervisory advice and reviews. Generally, most investigators responding to our questionnaire said that supervision was adequate or more than adequate in such aspects as giving advice as to what should be accomplished and ensuring that task objectives were met.

Due professional care

The proposed standards require that investigators perform their work with "due professional care" and in a timely, efficient, thorough, and legal manner. Although the term "due professional care" is not defined, the standards require the investigation function to

- gather and report evidence in an unbiased and objective manner in an effort to develop all the facts bearing on an issue,
- retain, at least until final disposition of the case, investigators' interview notes that are prepared in a criminal investigation, and
- conduct and report on investigations promptly.

The OIG investigation function satisfactorily complies with the due professional care standard in some ways. For the 15 sampled investigations, we judged that 13 adequately gathered and reported evidence in an unbiased and objective manner which was responsive to the allegations. To make our judgments, we reviewed OIG case records and interviewed OIG officials to determine if investigators followed logical and reasonable leads to collect information that might be used in deciding the merits of allegations.

In one of the 15 cases, the OIG investigation was not fully responsive to an allegation that the department was taking a reprisal against an employee for whistleblowing. The employee's supervisor accused him of arriving at work about an hour late for 3 days and suspended him for a day. The employee alleged to the OIG that the charges were false and he was being punished because he had made allegations to the IG about his supervisors about 6 months before he was accused of tardiness. OIG investigators opened a case and interviewed people who may have been able to verify his whereabouts for the questioned times, but they did not draw any conclusions from their work. The IG wrote the employee stating in the letter, "I told you that we take such a charge very seriously indeed, but that we need more data than just a general verbal complaint before we start a major investigation." An OIG investigator told us that the OIG wanted the employee to provide some evidence corroborating his allegation.

We recognize that corroborative evidence from the employee would have been useful, but even without the additional evidence, we think the investigators would have been more responsive to the allegation if they had (1) interviewed the supervisors and other office workers to determine whether the supervisors knew about the employee's earlier allegations and were retaliating for them and (2) compared the treatment of this employee with the treatment of other employees accused of

similar abuses. We did not evaluate the other case in the sample because investigators only gathered requested information for a U.S. attorney and they did not have to weigh the merits of conflicting evidence.

One area needing corrective action to be in satisfactory compliance with the proposed standards is the retention of notes taken when interviewing suspects and witnesses during an investigation of an alleged crime. These notes were not with the OIG case records for 3 of 12 sampled criminal investigations.¹ Although we found notes for most cases, we think their absence in 3 cases is significant and warrants corrective action. Retention of the notes is important because courts have ruled such notes are discoverable evidence and, therefore, can be reviewed by defendants or may be required to be produced at a trial. Because the courts have held that the government has the obligation to follow procedures designed to preserve all discoverable evidence, the failure to maintain interview notes could result in dismissal of a criminal indictment. None of the three cases without notes were affected because the Department of Justice declined to prosecute them for other reasons. An OIG official said the OIG did not expect any notes to be disposed of for cases like the ones we reviewed.

OIG officials familiar with the cases told us that several reasons probably explain the absence of notes in the reviewed case files, including

--some investigators were not aware of the OIG policy to retain the notes, and

--some supervisors did not properly review case records.

We could not verify these reasons because the responsible investigators and supervisors are no longer working for the OIG. We think another reason the notes were not in the case records is that the OIG policy for retaining notes is silent about how long the notes are to be retained. The proposed standard says the notes should be kept at least until final disposition of the case.

In another area of the due-professional-care standard, 6 of 15 sampled investigations experienced delays exceeding 60 days in initiating, conducting, or reporting on the investigation. In the most extreme case, the OIG did not investigate an allegation of bribery made in October 1981 for over 17 months. Once investigated, two witnesses who had allegedly heard the subject boast about the bribe could not remember pertinent information. Subsequently, an assistant U.S. attorney decided

¹We sampled 15 cases, however, the remaining 3 cases in the sample did not require notes because the OIG conducted no interviews or because the cases were not criminal.

that the evidence was insufficient to prosecute anyone. We did not determine the reasons for all these delays. Because of this and because the proposed standards do not define a prompt investigation, we did not judge whether the OIG satisfactorily complies with the proposed standard's timeliness requirement. OIG officials told us several reasons that they think explained delays:

- At times in the past, there were not enough investigators to handle the cases more promptly.
- OIG managers at various levels changed the priorities for conducting the investigations and, consequently, they delayed some investigations underway to allow for other investigations.
- No comprehensive OIG policies and procedures exist for setting key investigation milestones to complete an investigation.
- Personnel turnover delayed some investigations.

The OIG has acted to improve the timeliness of its investigations. A December 1984 internal evaluation found that some OIG investigations require "...what seems to be an inordinate amount of time to complete." Also, according to the evaluation, there have been inadequate controls to monitor the progress of OIG investigations. To strengthen controls for monitoring an investigation's progress, the assistant inspector general for investigations developed a new monthly report which records for each investigated case the date the case was begun, the number of days spent per month, and a total of days spent. OIG management will use the new report to review the amount of time spent on investigations.

OIG officials cited other actions taken to improve the timeliness of investigations. OIG management thinks it has hired enough investigators to handle the current investigative workload. Also, staff turnover is not as frequent as it was previously when the OIG reorganized its field offices. OIG management is also reviewing its backlog of investigative cases to determine the work necessary to close the cases. Finally, OIG managers developed new procedures for setting priorities in scheduling investigations. The procedures, designed to rank investigations by the significance of issues involved, are being used informally and will be incorporated into OIG policy. It is too early to determine how effective these actions have been or will be in reducing the time spent on investigations.

In addition to actions already taken to improve timeliness, we think OIG estimates for completing key segments of an investigation would be useful for OIG managers to monitor job progress. Such milestones would allow managers to measure the

portion of work completed, estimate when cases can be closed, and plan their staffing assignments for upcoming work. Of course, milestones for investigations must be flexible enough to compensate for changing circumstances in the office workload or the case complexity.

Preserving confidentiality

The proposed standards require that the OIG establish and follow procedures for safeguarding the identity of confidential sources and protecting confidential information. Information furnished to the OIG by an employee shall not be disclosed without the employee's consent unless the IG determines the disclosure is unavoidable. The OIG must establish appropriate safeguards for records containing the identity of confidential sources. The OIG must also establish procedures for releasing agency records to the public within the framework of applicable laws and regulations. The standards do not specify what safeguards an OIG should have to protect the identities of confidential sources.

The Commerce OIG has established a system for safeguarding the identities of confidential sources. It requires OIG staff to keep documents which could identify the names of confidential sources in special files which must be kept separate from case records. This was not being done in all cases we reviewed. Specifically, in a separate sample of 14 cases that we selected because they involved confidential sources, documents in 3 case records identified the names of confidential sources. Although 11 of 14 case records did not identify confidential sources, we think the potential harm to an OIG's credibility when confidential sources are inappropriately identified in case records warrants our judgment that the OIG does not satisfactorily comply with the requirement in the proposed standard. It should also be noted that in spite of the problems, we did not find any indications that the information in the three case records had been released outside the OIG, which OIG officials told us would be noted whenever case records are released.

In one of the cases, a clerk misfiled a document in the case record with the confidential source's name when a regional office transferred the document to headquarter's files. In another case, an assignment plan in the case records named the confidential source and the day the person was interviewed. In the third case, the case file contained a signed allegation similar to the record prepared by the investigator which documented the confidential allegation. In the latter two examples, the investigators were not alert that confidential source identities could be disclosed in such a manner.

We think that the problem in the first case could be remedied if investigators in the sending office alerted those in the receiving office to verify that confidential documents are

filed correctly. We think that the problems in the second and third cases could be avoided if the OIG prepared some guidelines for investigators alerting them to ways that case files can inadvertently provide clues about the identity of a confidential source.

Planning

The proposed standards call for a planning system to determine programs and operations where investigations are needed, establish priorities for the work, and ensure that investigations are conducted efficiently and effectively. The planning standards make the OIG responsible for (1) organizational planning, which sets priorities for the investigative function's work and (2) individual case planning, which requires the preparation of an investigative plan of action for each case.

The OIG does not satisfactorily comply with the proposed standards for either organizational planning or individual case planning.

The OIG's investigative function has developed an organization plan, but we think the plan needs improvements to satisfactorily comply with the organizational planning aspect of the standards. For example, the assistant inspector general for investigations prepared a fiscal year 1985 program plan. However, the plan does not establish priorities, estimate staff resources needed to carry out the planned efforts, or include several continuing investigative efforts, such as reacting to allegations or managing the OIG hotline. The plan did not include staffing needs because (1) the IG did not ask for the estimate and (2) OIG officials think such an estimate would be subject to too many factors beyond the OIG's control, such as hotline allegations, to be meaningful. The plan omitted other investigative efforts because the IG asked only for "proactive" efforts. The IG also did not request that the plan establish priorities.

We think staff-need estimates would be useful in annual plans even though the estimates would change due to unpredicted events. Such estimates would provide the basis for justifying budget requests, setting priorities, and evaluating the relative costs of each investigative effort. Including all major investigative activities in the annual plan would provide similar benefits.

The OIG also needs to prepare individual investigation plans for more cases to comply satisfactorily with that portion of the planning standard. Of 15 investigations reviewed, only 5 had adequate plans; 10 did not have any plans. We considered an adequate plan to be any document stating what tasks OIG investigators would perform in conducting an investigation. OIG officials told us that they expect written plans for most

investigations, including those we reviewed, and they have verbally told investigators to prepare them. The officials think the reasons that we did not find plans include

- the lack of a written requirement for investigators to prepare them,
- little enforcement of the verbal policy by supervisors, and
- the need to train some investigators on how to prepare the plans.

We confirmed that no written requirement for plans exists.

The staff questionnaire generally supports our observations about plans for individual investigations and the reasons that we did not find plans. Fifty-nine percent of investigators answering our questionnaire reported that written plans were prepared for most to all the jobs they worked on, 4 percent said for about half the jobs, and 37 percent said for about one-fourth the jobs or fewer. Thirty-seven percent also reported that the OIG had not communicated its policies and procedures to them for job planning. Thirty-eight percent reported that they received OIG guidance in developing work plans about half the time or less.

In our opinion, preparing investigative plans is important because the plan can help (1) investigators to focus on case objectives and (2) managers to provide input at the outset of an investigation and to monitor progress toward completing an investigation.

Reporting

The proposed standards require that the OIG keep agency management and the Congress fully and currently informed of appropriate aspects of OIG investigative work. Standards in this area include responsibilities for the IG and his staff to inform the Congress, agency head, and program officials of investigative work. Also, reports prepared for individual investigative cases should discuss all relevant issues and be accurate, objective, timely, and well-organized. Timeliness is also an element under the due-professional-care standard, and we report our observations in that category instead of this one.

The OIG does not satisfactorily comply with one aspect of the proposed reporting standard which requires keeping top departmental officials apprised of ongoing investigative work. In 6 cases out of our sample of 15 investigations, investigators did not brief agency officials in time to allow them to act and protect government interests while the OIG conducted its investigation. We did not determine whether adverse impacts actually resulted from the lack of timely briefings.

In one sampled case, investigators learned that the individual selected by a grant applicant to be the grant project coordinator had a criminal record which had not been disclosed to the department. The individual had signed a form indicating no prior convictions. Department officials could have taken this information into account in deciding whether to (1) award the grant or (2) impose any restrictions on the grantee. However, OIG investigators did not tell any department official about their discovery until a month after the grant award, even though investigators had the information for a month before the award.

According to an OIG official familiar with this case, department officials have not been appropriately briefed in the past because OIG officials had not emphasized the practice, and, consequently, investigators had not perceived the importance of keeping department officials fully informed. Managers are now emphasizing the briefing of department officials, according to the OIG official. However, we did not find any OIG procedures explaining when a department official should be briefed about an investigation, how the briefing should be handled, nor who should do the briefing.

The OIG satisfactorily complies with other aspects of the reporting standards. For example, we reviewed the investigation summaries in one semiannual report and found the information is consistent with OIG and department records pertaining to the investigations and accomplishments. Also, we judged that 10 of 11 sampled investigations with reports were well-prepared; the remaining 4 cases in our sample did not have reports. We based our judgments on reading the reports to determine whether they were concise, complete, consistent with information in the investigation records, objective in presentations of relevant information, free of jargon, and understandable. One report, however, did not contain enough information to explain what work was done and what the investigation disclosed. We did not believe that this report was typical of others in our sample.

ADEQUACY OF QUALITY-CONTROL POLICIES AND PROCEDURES

The proposed standards do not specify that OIGs should develop policies and procedures to prescribe how the standards will be implemented by the staff. As a result, the OIG had not developed written policies and procedures to implement aspects of the proposed standards. However, OIG officials told us that they have long expected their staff to do some of the things included in the proposed standards, but the OIG had not written the policies and procedures. For example, no OIG written policy exists specifying how long to retain interview notes in case records. Also, the OIG has no written policy for the preparation of investigative plans. An OIG consultant concluded in January 1985 that the majority of existing written policies and procedures are either completely or partially obsolete. The

consultant also reported that the written policies deal with isolated topics and do not form a coherent policy framework. Based on our review of these written policies and procedures that existed during our review, the consultant's conclusions are correct.

Previously, the OIG has prepared policies and procedures as a reaction to a problem or a situation where OIG management wanted more uniformity. In organizing the office, according to an OIG official, the OIG has had little time or few staff to develop a comprehensive set of policies and procedures. A greater priority was taking care of more essential matters, such as staffing and office space, according to the official.

The staff questionnaire generally supports our observations about OIG policies and procedures. For example, 59 percent of investigators responded that the OIG was marginally adequate to very inadequate in communicating its policies and procedures as to what constitutes sufficient, competent, and relevant evidence. Thirty-seven percent responded that the OIG was marginally adequate to very inadequate in communicating its policies and procedures if investigators uncovered an instance of possible fraud, abuse, or other illegal act.

The OIG started a project to improve its policies and procedures for the investigative function in July 1984 and made available a draft of a new operations manual for the staff to follow in May 1985. The IG was still in the process of reviewing this document as of July 1, 1985.

CONCLUSIONS AND RECOMMENDATIONS

In 6 of the 11 categories, the OIG satisfactorily complied with proposed professional standards for investigations in areas that we tested. In the category on directing and controlling, we were unable to judge whether the OIG was in satisfactory compliance with the standards. However, corrective action is needed to bring the OIG into satisfactory compliance with aspects of the proposed standards for due professional care, preserving confidentiality, planning, and reporting. While the OIG in some instances did not satisfactorily comply with the proposed standards, we did not identify any instances where there was cause to question the OIG's findings in the cases we reviewed.

To assist the OIG in satisfactorily complying with certain aspects of the proposed standards, we recommend that the IG

- establish milestones for completing each investigation and monitor the progress in meeting these milestones,
- write policies and procedures requiring investigative plans for individual cases,

- specify appropriate OIG officials to review case plans and the progress in implementing them,
- train investigators in preparing these plans,
- include in the annual plan all major investigation functions and staffing estimates,
- revise procedures for sending information about confidential sources between offices to include a verification by investigators assuring that the information is correctly filed,
- prepare guidance for the investigators that alerts them to ways that investigative files can inadvertently provide clues about the identity of a confidential source,
- expand the OIG policy on retaining interview notes to specify where and how long to retain the notes,
- instruct investigators on the OIG policy to retain interview notes for criminal cases,
- develop procedures for verifying that the notes are appropriately filed with official records of investigations, and
- prepare guidance for investigators explaining when a department official should be briefed about an investigation, what type of information that should be conveyed in the briefings, and who should do the briefing.

To strengthen controls for ensuring investigators are free of financial impairments to their personal independence, we recommend that the IG instruct new investigators at the GM-13 level and above to submit financial disclosures, and that the IG or other OIG management officials review the disclosures.

We also recommend that the IG determine why some investigators perceive inadequacies in staff training and appraisals, and that the IG act to improve those perceptions.

The IG is aware of the shortfall of written policies and procedures guiding investigations. A new operations manual has been prepared and distributed in draft form to the staff, and the IG is reviewing it. We endorse this review. The adoption of professional standards in the inspector general community could expedite the IG's approval of the policies and procedures.

AGENCY COMMENTS

In commenting on a draft of this report, the IG said he accepted our recommendations and promised corrective action. He

stated that, in most cases, corrective actions had already been initiated based on information that we provided the OIG during the review. To check on the implementation of the corrective actions, the IG added that he was increasing quality-assurance efforts, with a particular focus on the adequacy of supervisory reviews by line managers. Also, the OIG is conducting an internal review of investigative work-paper support during fiscal year 1985.

CHAPTER 4

ASSESSMENT OF THE INSPECTION FUNCTION

In addition to the audit and investigation functions, the Commerce OIG, as well as many of the other statutory inspectors general, have established programs for conducting a third category of review activities generally referred to as inspections. Our assessment of the inspection function was limited to the extent to which work papers contained documentation of inspection report observations and recommendations and whether reports adequately described the scope of work performed.

In a September 1984 report on the inspection function of the OIGs, the President's Council on Integrity and Efficiency (PCIE), whose membership includes the statutory IGs, took the position that the inspection function is separate and distinct from audits and investigations, and that inspections do not have to adhere to generally accepted government auditing standards. The IGs with inspection functions believe that it would be unwise to require that all inspections adhere to a specific set of standards (such as generally accepted government auditing standards). They feel that those IGs who wish to abide by specific standards should be allowed to do so, but that this decision should be left to the discretion of each IG. The PCIE concludes that IGs who wish to develop standards should devise them broadly enough to fit the individual circumstances of each inspection. At the time of our review, the Commerce IG had not adopted any specific set of professional standards, but he developed his own written policies and procedures for the inspection function.

Therefore, a question arises as to what professional standards, if any, should apply to the inspection function. We did not address this issue as part of our quality assessment review of the Commerce IG. Instead, it will be addressed in a separate review of the inspection activities of all statutory inspectors general which we have recently initiated.

The Commerce OIG developed written policies and procedures for conducting inspections when the program began in 1982. These policies and procedures discuss OIG responsibilities, annual inspection planning, the inspection process, referrals to auditors and investigators, and inspection follow-up. Policies and procedures on the inspection process include a requirement that report observations and recommendations be supported with work-paper documentation.

For the purposes of this assessment of the OIG inspection function, our review was limited to determining if they complied with the written OIG requirement that report observations and recommendations be supported with work-paper documentation. We also reviewed the inspection reports to determine if the reports

included a description of the OIG work scope. We think it is important that inspection report users know the extent of OIG work before they use the reports to justify managerial decisions.

As part of our overall review of the Commerce Office of Inspector General, we reviewed 10 of 41 inspection reports issued in final or draft form between October 1, 1983, and November 30, 1984. Our review of individual inspection reports was based on two separate judgmental samples. The initial sample of five completed inspections, selected from 22 reports issued between October 1, 1983, through June 30, 1984, showed that they did not meet the OIG requirement that each report observation and recommendation be supported with work-paper documentation. In December 1984, we sampled 5 out of 19 additional inspections issued between September 1, 1984, and November 30, 1984, to determine the effectiveness of corrective measures the IG took based on our discussions about the problems noted in our initial sample. While we found a number of improvements had been made, our review of these jobs indicates that some additional steps are still needed to improve the quality of work-paper documentation for inspection reports.

INSPECTION FUNCTION AT THE DEPARTMENT OF COMMERCE

The Commerce Inspector General established the inspection function in September 1982 to provide greater OIG coverage of departmental activities, given limited resources and the need to continue major audits and investigations while also providing departmental managers with timely information about problems in their units. The Commerce OIG believes that, in addition to increasing the number of activities which it can review, the unannounced inspections have a deterrent effect.

At the Department of Commerce, the inspection program is directed toward a review of all activities of a single organizational entity or operating unit instead of a review of programs or functions across several organizational entities. The inspections are usually conducted on an unannounced basis by a team of three experienced staff members over a 1-month period. Specifically, the first week is spent planning the inspection. The second week is spent on a field site visit of the inspected facility. The final two weeks are spent preparing a draft report. Inspections rely, to a large degree, on observation and interview techniques. The teams usually hold close-out meetings with facility management and the responsible headquarters officials after the completion of the 1-week visit. The IG expects the staff to complete each inspection report in draft form 30 calendar days from the beginning of the inspection in order to provide immediate feedback to program managers. The IG believes this timely information will enable program managers to correct existing problem situations before they become

unmanageable and will allow the managers to address potential problems before they become an issue. Additionally, inspections provide leads for the audit and investigation areas. Since the beginning of the inspection program at the Department of Commerce in September 1982, about 30 percent of the inspections have resulted in referrals to the Office of Audits or to the Office of Investigations for more in-depth work.

As of December 1984, eight staff members carry out the inspection function on a full-time basis. These staff members' backgrounds are in the areas of accounting, management, and procurement. The audit, investigative, and general counsel staffs provide additional resources on an ad hoc basis. The persons from these staffs are generally assigned on the basis of specific program experience or technical and analytical abilities.

The IG believes the inspection function has proven to be a highly productive use of his resources because

- inspections are designed to surface problems for management attention while they are new and timely,
- inspections are aimed at preventing problems and/or their early correction,
- inspections are accomplished in about 25 percent of the time required for an average management audit,
- inspection recommendations are generally accepted by program managers, and
- inspections have resulted in referrals to the Office of Investigations and the Office of Audits.

Additionally, the IG believes that less documentation is needed for this type of job than an audit. To avoid misreadings by the inspection team and still ensure accuracy, the assistant IG for inspections told us that the OIG relies on (1) the assignment of high-level staff to inspections, (2) extensive debriefings and exit conferences with managers of the inspected unit and its field and headquarters supervisory officials, and (3) in-depth team briefings of OIG inspection officials, the deputy IG, and the IG. We did not verify that this process is followed.

PROBLEMS NOTED IN INITIAL SAMPLE

We initially reviewed 5 of the 22 inspection reports issued from October 1, 1983, through June 30, 1984. We found that all 5 did not meet OIG documentation requirements or adequately describe the work scope. More specifically:

--Work papers were extremely disorganized and difficult to follow, and lacked adequate documentation and interview write-ups to support the report observations and recommendations.

--The scope section of the inspection reports did not adequately identify the type and scope of work performed.

Lack of documentation
and interview write-ups

In all five of the reviewed inspections, we identified areas where the inspection work papers did not contain enough material to document inspection report observations and recommendations. More specifically, while most inspections rely primarily on the gathering of information through interviews with agency personnel, key employees, program recipients or clients, and others knowledgeable about the inspected unit, we found almost no documentary evidence that the OIG staff conducted such interviews. However, the reports state that interviews had been conducted. We found almost no interview write-ups and only a few notes in the work papers we reviewed.

For example, one inspection report stated that the team had interviewed agency personnel and representatives of user agencies to form the basis of the inspection observations and recommendations. With respect to the documentation supporting the inspection report's observations and recommendations, however, we found no interview write-ups in the work-paper file and only a few cryptic interview notes. The interview notes for this inspection seldom included even the name and title of the person interviewed. According to an assigned staff member, some statements in the inspection report were based on interviews he had conducted but for which he had not taken notes, and so, no supporting evidence exists in the work papers.

While inspections rely a great deal on interviews for supporting evidence, the OIG staff also develops evidence with other work, such as reviewing contract files and purchase orders, and taking inventories of property. For this type of work, we also did not find work-paper documentation of observations and recommendations for the five reviewed inspections.

In reviewing the documentation and interview write-ups supporting the reports' observations and recommendations, we found that two of the supporting work-paper files were so poorly organized that it was virtually impossible to find the work papers relevant to points in the reports. In those cases, the work-paper files consisted of folders full of loose papers and documents. We could not determine the relevancy of many documents, nor could we find the work papers which supported the issues reported. Additionally, many report statements were presented as direct quotes, but we were unable to determine the

source for these statements or locate the work papers which contained the quoted language.

Work papers are the link between field work and the inspection report. To ensure this linkage exists, work papers should be understandable without detailed supplementary oral explanations. Work papers should also be legible and as neat as practicable. Work papers can lose their worth as evidence--as in the inspections we reviewed.

Inspection staff members pointed out that they do not have sufficient time to document their work fully because the OIG policies require them to give the IG a draft report within 30 days after their inspection begins. Their understanding is that the inspection report is essentially a stand-alone document, and the OIG depends on the quality of staff and their memory, debriefings, and the OIG review process instead of documentation in the work papers.

Incorrect scope statements

We found the scope sections of the five inspection reports reviewed did not adequately identify the type and scope of work performed on inspections. Reports stated that auditors performed more tests and examinations than our review of work papers indicated. Also, reports implied that the inspection team findings were more significant than the work papers could support. For example, we could not determine the materiality of certain problems discussed in an inspection report. In this case, the inspection report generalized that the inspected unit did not complete leave slips when required. However, the work papers showed that out of a total of 170 staff members, only one subunit containing eight staff members had failed to complete the required forms.

Corrective action taken

In an August 1984 meeting with the Inspector General and his staff responsible for the inspection function, we pointed out that all of the inspections initially reviewed did not meet their own written policies and procedures for documenting observations and recommendations in work papers. The IG and his staff agreed in general that the problems associated with documenting inspection-report observations and recommendations were valid. They stated that, traditionally, the OIG has relied on the memory of its inspectors and on feedback from the inspected organization, rather than on work-paper documentation. The IG and his staff agreed that they need better work-paper documentation and organization. They pledged to take corrective action immediately and invited us to reevaluate their work in December 1984.

PROBLEMS CONTINUED IN SECOND
SAMPLE, BUT IMPROVEMENTS NOTED

We reviewed an additional five inspection reports during December 1984 to determine if the OIG staff took corrective action and if this affected the quality of the inspection assignments. We selected our sample from the eight final inspection reports and the 11 draft reports issued between September 1, 1984, and November 30, 1984. We noted that the OIG had, in fact, made a number of improvements in the inspection function since we discussed the results of our initial sample. We did, however, identify some continuing problems which affect the quality of the inspection process.

Lack of documentation
and interview write-ups

The five reviewed inspections had improved in terms of documenting the inspection work, but we still identified areas where the work papers did not contain enough information to document the reports' observations and recommendations. Of the five inspections reviewed, we found only one which contained clear and understandable interview write-ups. Another three sets of work papers contained interview notes, although these varied widely in clarity. The work papers for one reviewed inspection had no interview write-ups or interview notes in its associated work papers. This particular inspection report later proved to be overly critical of the inspected facility and failed to reflect fully the corrective actions agency personnel took.

We found the lack of adequate documentation to substantiate testing or other verification of reported numbers to be a continuing problem. All five inspections contained little or no evidence of corroborative testing or other documentation for statements of fact included in the reports. This lack of testing or other verification documentation of the data cited in the reports suggests that staff primarily based their findings on oral testimony--usually a less reliable means for ensuring accuracy--and undocumented observations.

Additionally, we found that four reports contained statements not documented in the work papers. In these inspections, we found no work papers associated with one or more "report findings," even though the staff presented them as major sections of the inspection reports. For example, one inspection report presents as a major finding the increased cost for back-up telephone service. However, our review of the work papers did not reveal anything showing this problem at the inspected unit. In another inspection report, a major section discusses the adequacy of internal controls and the purchasing function. Again, we found no reference to interviews or other testing to support these overall findings.

Of the five reviewed inspections, four were improved in work-paper organization over our initial sample. In these four cases, work papers were logically organized into bundles with tables of contents, making specific work papers easier to locate and use. However, one inspection's work papers were so poorly organized that we were unable to find the majority of supporting documents and write-ups. In this case, work papers were not organized into bundles but instead consisted of folders full of loose papers and documents.

Lack of purpose and scope statements

Of the five reviewed inspections, three contained an adequate description of the purpose and scope. This description basically consisted of a brief outline of the inspection function, including an appropriate qualification on the scope of work performed. We found two inspections which did not include this type of language. While these two cases were follow-ups on previously conducted inspections, they did include some new observations. Owing to the inclusion of this additional material, we believe that the staff still needs to inform report readers of the scope limitations associated with the inspection function.

ADEQUACY OF QUALITY-CONTROL POLICIES AND PROCEDURES FOR SUPERVISORY REVIEW

The OIG's written quality-control policies and procedures for inspections are silent regarding supervisory review. The lack of a formal requirement for supervisory review may be due to the high-level staff assigned to the inspection function. We found that staff assigned permanently to the inspection function were mostly at a senior or supervisory level. Most staff assigned from other offices are also at these higher levels. Although there is no formal OIG requirement for supervisory review, we were told that each inspection is given a rigorous review by the IG and inspection division supervisors. However, we believe that supervisory reviews are an important part of all OIG work and that the absence of any written requirement for them is a weakness in the inspection policies and could have been a possible cause for the problems noted in work-paper documentation.

CONCLUSIONS AND RECOMMENDATIONS

While we noted improvements in the documentation to support the inspection reports' observations and recommendations, we believe the quality of work performed could be further improved in three areas.

First, inspection-report observations and recommendations should be documented as required by the OIG's own written

quality-control policies and procedures. We were especially concerned about the lack of interview write-ups and documentation for substantive testing. Since the inspection function relies heavily on interviews, documentation of these discussions is essential. Additionally, other statements of fact should be verified through some sort of testing, or the report should clearly indicate the scope limitation. OIG staff should also document this testing in the work papers.

Secondly, while the OIG has taken positive steps to improve the organization and appearance of its work papers, additional measures could be taken to ensure that work papers are clear, concise, and well-organized. One such measure could be to require supervisory reviews that would focus more attention on the content and organization of supporting documentation. The OIG should also incorporate this supervisory review into its written quality-control policies and procedures for inspections.

Lastly, we believe the OIG could improve the inspection function by better defining the scope of work performed in all inspection reports. Again, the OIG has begun to make improvements in this area by including scope information in most reports. We also believe that the scope limitations should be stated in follow-up inspections, especially when the report discusses new material.

Accordingly, we recommend that the IG

- reiterate the importance of complying with the OIG's own written quality-control policies and procedures regarding work-paper support for inspection-report observations and recommendations,
- revise written quality-control policies and procedures to designate that inspection team supervisors should ensure adherence to the OIG's work-paper support requirement for inspection-report observations and recommendations, and
- require that inspection reports include appropriate scope statements and limitations.

AGENCY COMMENTS

In commenting on a draft of this report, the IG indicated acceptance of our recommendations and has initiated corrective actions based on information provided to him during our fieldwork. Accordingly, he will see that the inspection function complies with OIG policies and procedures to document support for inspection-report observations and recommendations. The OIG is conducting an internal review this fiscal year of work-paper support for its inspection process. In addition, the OIG is increasing its quality assurance efforts, with particular emphasis on supervisory reviews by OIG line managers.

The IG noted that the inspection program is designed to (1) provide greater OIG coverage of Commerce activities within the limits of OIG resources and (2) give managers current information about problems. He added that the OIG has struggled with the documentation issue. While recognizing the importance of reliable reports, the IG said that detailed work-paper support of each finding would impose a time and resource constraint that would defeat the very purpose of inspections. To achieve an effective balance, the OIG, prior to our review, adopted procedures which supplement documentation as a means of assuring inspection report quality, including

- a short time period (usually less than a week) between the inspection (end of fieldwork) and subsequent reporting of results (usually in the form of an oral briefing at a close-out meeting) to headquarters agency officials,
- a requirement that the same individuals who conducted the inspection brief agency officials and draft the report,
- a requirement that inspectors conduct daily briefings among themselves on progress and findings during the course of an inspection,
- a requirement that the inspection team leader fully brief the head of the inspected unit and resolve any on-site errors or misinformation before leaving the site, and
- a requirement that findings of an inspection team be intensively reviewed by OIG inspection unit supervisors and by the IG and/or the Deputy IG before headquarters agency officials are briefed and a draft report is prepared.

Additionally, after our initial sample, the OIG initiated a new procedure to issue inspection reports in draft for agency review and comment before issuing final reports. This new procedure was adopted as an additional measure for ensuring inspection-report quality.

Our audit scope was not designed to determine whether the procedures which supplement documentation will work to ensure inspection-report quality. The OIG has not made that determination either, as far as we know. Therefore, as a part of the OIG's internal review of work-paper support for its inspection process, we believe the OIG should determine whether the supplemental procedures are working.

SCOPE AND METHODOLOGY

We conducted our quality assessment review in two phases. Since this was the initial review, the first phase involved developing an approach for this review and future reviews of the OIGs and other internal federal audit organizations. The second phase involved implementing the review approach.

REVIEW APPROACH

Our review assesses whether OIG audits are conducted in accordance with generally accepted government auditing standards and whether OIG investigations are conducted in accordance with standards being developed for conducting investigations, which are discussed below. Our review approach involves evaluating the organization's quality-control policies and procedures (systems review); reviewing and testing a sample of reports and work-paper files for recently completed assignments (assignment review); and reviewing, testing, and evaluating other available evidence (other compliance testing). Our review is a compliance evaluation. It does not evaluate the economy, efficiency, and effectiveness of OIG activities. Also, we do not redo any of the audits or investigations.

The assessment of an OIG or other federal internal audit organization's audit work is measured against generally accepted government auditing standards, which are contained in the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, revised in 1981. The assessment of the OIG's investigation function is measured against the President's Council on Integrity and Efficiency Interim Quality Standards for Federal Offices of Inspector General, issued in September 1984; and the Association of Federal Investigators (AFI)/Association of Directors of Investigation (ADI) proposed Professional Standards for Investigations, revised as of December 1984. The Commerce IG had not adopted any specific set of professional standards for guiding inspections, a relatively new activity implemented by several IGs, and our review was limited to assessing whether the OIG complied with its own policies and procedures for documenting observations and recommendations in inspection reports.

While developing the review approach, we discussed the review methodology and criteria with the various statutory IGs, who generally concurred that our approach was sound and logical. In addition, we requested comments on our review guidelines from the IGs, the American Institute of Certified Public Accountants, selected state auditors, intergovernmental audit forums, and public accounting firms. Most comments stated that the guidelines were very thorough and comprehensive. However, we received two recurring comments. First, a number of the IGs and representatives from public accounting firms stated

it was important that we staff our reviews with top-quality, senior-level personnel; several noted that peer-review teams in public accounting are staffed primarily with partners. Second, a number of the IGs said they did not believe that we had the in-house expertise to properly evaluate their investigative functions. Several IGs suggested that we consider hiring an experienced investigator for our review team.

In finalizing our review guidelines, we evaluated and considered all the comments and changed the guidelines as we deemed appropriate. We specifically address the two above-mentioned comments in the next section.

REVIEW OF COMMERCE OIG

As discussed above, using our review approach, we performed a review of the audit, investigation, and inspection functions of the Commerce OIG; we did not review the OIG's administrative and legal-support functions. We conducted the review at OIG (1) headquarters in Washington, D.C.; (2) regional offices of audit in Atlanta, Georgia; Denver, Colorado; San Francisco, California; and Seattle, Washington; and (3) regional offices of investigation in Atlanta, Georgia; Boulder, Colorado; Newark, New Jersey; and Washington, D.C. We performed our work from May 1984 through March 1985 in accordance with generally accepted government auditing standards.

Senior-level supervisory staff with extensive accounting and auditing experience performed the review. Although the review team did not have investigative experience, we believe the review team possessed the necessary skills to evaluate an OIG investigation function. For this review, however, the review team was assisted by a supervisory FBI special agent, who was experienced in conducting criminal investigations and performing internal inspections of FBI field offices. Upon completion of our review of the investigation function, the FBI special agent concluded the review team members were highly qualified to evaluate any OIG investigation function.

During our review, we met periodically with the IG and his staff to discuss our assessment results as well as our observations on other good management practices which we thought the OIG should consider adopting. In addition, we provided the OIG and his staff our detailed findings on each audit, investigation, and inspection we reviewed.

Preparing an organizational profile

Building an organization profile was the first step in conducting our review of the Commerce OIG. We prepared a two-part profile. First, we developed an agency profile to understand the OIG's working environment. In developing this profile, we obtained such information as mission statements, budget and staffing reports, and policies and procedures relating to OIG operations.

To help us determine how the systems review, assignment reviews, and other compliance testing would be done, we developed an OIG profile. In developing this profile, we obtained such information as mission statements; applicable laws and regulations; policies and procedures; descriptions of major functions; budget and staffing reports; listings of completed audits, investigations, and inspections; self-assessment reviews; and semiannual reports.

We interviewed the IG to determine if (1) the OIG should adhere to all standards included in our assessment guidelines, (2) we had identified all applicable standards in our assessment guidelines, and (3) the OIG inspection function had adopted any specific set of professional standards. Also, we obtained the general views of all principal OIG deputies and assistants and various regional heads about the extent the OIG is complying with generally accepted government auditing standards and other professional standards. In addition, we obtained viewpoints on such issues as independence, quality of work, and type of work performed from Commerce, Justice, and OMB officials, and Senate and House committee staff which the OIG serves.

Customizing general review guidelines

After we prepared and analyzed the organizational profile, we determined that our general review guidelines required no significant modification for assessing the OIG's audit and investigation functions. However, we expanded our guidelines to include an assessment of the OIG's inspection function. In doing so, we developed an assignment review guide based on the OIG's written policies and procedures requiring that report observations and recommendations be supported with work-paper documentation.

Developing data collection instruments

To help us assess the OIG's audit, investigation, and inspection functions, we used two data collection instruments--a staff questionnaire and a user questionnaire. We developed these questionnaires during the initial phase of the review.

The staff questionnaire solicited comments from OIG professional staff on policy, procedural, and operational matters. It addressed such matters as professional development, independence, planning, and supervision. We sent the questionnaire to 154 OIG professional staff members on board as of August 24, 1984. Our universe excluded OIG policymakers (IG, deputy IG, and assistant and deputy assistant IGs), professional support staff (Office of Legal Counsel to the IG and Office of Administration), and administrative staff.

We received 133 staff questionnaire responses, or 86 percent of our universe. Respondents included 94 staff from the Office of Audits and the Office of Automated Information

Systems, 27 from the Office of Investigations, 7 from the Office of Planning, Evaluation, and Inspections, and 5 others. Responses to the staff questionnaire were anonymous, thus we were unable to verify responses or explain why responses sometimes varied from our own observations. In addition, although the questionnaire was pretested by a cross-section of OIG staff, some questions were more appropriate for auditors. Questions which were not appropriate for a group of respondents were not used in our final report. The responses of 7 inspectors were not included in the chapter on inspections because (1) the number of cases in this area was too small, and (2) the chapter on inspections focused on issues not covered in our questionnaire.

The user questionnaire solicited comments from OIG report users on the clarity and usefulness of specific reports. The questions focused on such areas as independence, timeliness of work, adequacy of coverage and support, and clarity of reports. We sent 194 questionnaires to users of OIG reports issued during the 9-month period ending June 30, 1984. Commerce officials were the primary users of OIG reports.

Of the 194 questionnaires sent to users of OIG reports, we received 169 responses, or 87 percent of our universe. The respondents to the user questionnaire presented their views with respect to 92 audits, 57 investigations, and 20 inspections. Although the majority of users were Commerce officials, we also sent the questionnaire to 17 U.S. attorneys or their assistants who used OIG investigative reports. We subsequently learned, however, that the Department of Justice had instructed the U.S. attorneys not to respond to the questionnaire because we had not obtained proper clearance from Justice prior to distribution.

As with the staff questionnaire, we found the questions in the user questionnaire were more appropriate for users of audit reports than investigative reports. In many instances, respondents chose to leave specific questions blank or responded "not applicable" if a question did not apply. Missing responses to questions by users of investigative reports was very high, ranging from 30 to 70 percent. As a result, we did not include any data from the users of investigation reports. In addition, we did not use the responses of inspection report users because the chapter on inspections focused on issues which were not covered in our questionnaire.

Reviewing policies and procedures

To evaluate the adequacy of the OIG's quality-control system, we reviewed the written policies and procedures for the audit and investigation functions to determine if they were adequately documented to provide the OIG with reasonable assurance of conforming with generally accepted government auditing standards and other professional standards. If the policies and procedures were not documented, or not sufficiently

documented, we interviewed OIG management officials to determine what they did to provide the OIG with reasonable assurance of conforming with generally accepted government auditing standards and other professional standards. We documented the results of our review in the respective systems review guides for audit and investigation.

Testing compliance with standards

To determine the OIG's satisfactory compliance with generally accepted government auditing standards and other professional standards, we reviewed a sample of completed audit, investigation, and inspection reports--which we called assignment reviews--issued during the 9-month period from October 1, 1983, through June 30, 1984. In addition, we performed other compliance testing, as necessary, to supplement the assignment reviews.

For the audit assignment review, we obtained an OIG-generated listing of 156 audit reports--30 management audits and 126 contract, grant, and loan (CGL) audits--issued during our 9-month review period, and we identified the audit reports issued by each audit unit (headquarters, division, or regional office). For each audit unit, we then classified all audits as large (those requiring 100 or more staff days) or small (those using less than 100 staff days); determined, judgmentally, the number of audits for review; and selected the specific audits for review using random numbers. Where possible, we selected at least one large and one small audit from each audit unit.

We reviewed 33 audits (13 management audits and 20 CGL audits) and evaluated each audit against key aspects of 10 categories of generally accepted government auditing standards--staff qualifications, independence, individual job planning, supervision, legal and regulatory requirements, internal controls, evidence, fraud and abuse, reporting, and audit follow-up.² For all the selected audits, we completed an assignment review guide, which addressed each of the above standards, and analyzed and summarized the data. In addition, we evaluated the OIG annual audit planning process against OMB Circular A-73, Audit of Federal Operations and Programs; the audit standards do not address annual audit planning.

The primary focus of our work on the audit assignment review was on assessing the OIG's compliance with generally accepted government auditing standards when conducting audits.

²The general auditing standard for due professional care was not assessed as a standard. Instead, the following component parts of the due-professional-care standard were assessed separately: supervision, fraud and abuse, internal controls, evidence, and audit follow-up.

We did not assess the OIG's desk-review function. Desk reviews are ones that Commerce auditors perform in their own offices of public accounting firm audits of federal funds recipients. We are, however, currently conducting a multiagency review of the quality of public accounting firm audits of recipients of federal funds.

For the investigation assignment review, we obtained an OIG-generated listing of 125 closed investigation cases for our 9-month review period. We verified the accuracy of this list with reports of case closings submitted by field offices for the review period. We identified the cases completed by each investigation unit (headquarters or regional office), and we weighted the cases based on staff days spent. For each investigation unit, we then categorized, judgmentally, the cases as small, medium, or large; determined, judgmentally, the number of cases for review; and selected the specific cases for review using random numbers.

We reviewed 15 investigation cases and evaluated each investigation against key aspects of the PCIE's Interim Quality Standards for Federal Offices of Inspector General issued in 1984 and the AFI/ADI proposed Professional Standards for Investigations, revised as of December 1984--the two sets of standards are not identical, but contain similar requirements. We used these draft standards, which are still subject to change and clarification, in assessing OIG compliance even though the standards were developed after the OIG had completed most of the cases that we reviewed. However, OIG officials said they intend to adopt and implement these professional standards when they become final. The Commerce IG agreed that using the proposed standards would be appropriate for the investigation function and that our approach was reasonable for evaluating the investigation function. We combined the two sets of standards into 11 categories, as table 4 illustrates, which we used for evaluating the investigation function. We completed an assignment review guide, which addressed key aspects of each of the above standards, for all the selected investigations, and analyzed and summarized the data.

Table 4Standards Used for Evaluating
OIG Investigations

<u>Categories</u>	<u>PCIE standards</u>	<u>AFI/ADI standards</u>
Staff qualifications	Assuring staff qualifications	Qualifications
Independence	Maintaining independence	Independence
Planning	Planning	Planning
Due professional care	No standard	Due professional care Execution
Quality assurance	Maintaining quality assurance	No standard
Reporting	Reporting	Reporting
Directing and controlling	Directing and controlling	No standard
Coordination	Coordinating	No standard
Screening allegations	Receiving, controlling, and screening allegations	Information management
Preserving confidentiality	Preserving confidentiality	No standard
Information management	No standard	Information management

For the inspection assignment review, our review was limited to assessing whether 10 of 41 OIG inspection reports complied with the OIG's own policies and procedures for documenting report observations and recommendations. We developed the list of inspection reports using an OIG listing of all inspections that have been conducted. We conducted the review in two separate samples. Initially, we reviewed 5 of 22 inspection reports issued from October 1, 1983, through June 30, 1984, determined the sample size judgmentally, and selected cases randomly. The first sample disclosed that the inspections did not meet the OIG's "self-imposed" quality-control requirements for work-paper support. Because of the

significance of our findings, we took an additional sample of recently completed inspections to evaluate whether OIG corrective measures had improved previously noted problems. We selected 5 additional inspections from a universe of 8 reports issued and 11 reports drafted during the period from September 1, 1984, through November 30, 1984; we determined the sample size judgmentally and selected cases randomly. We completed an assignment review guide for all the selected inspections, and analyzed and summarized the data.

In addition to the assignment reviews, we performed other audit steps to test the OIG's compliance with generally accepted government auditing standards and other professional standards. For example, we sampled hotline calls to determine if the calls were appropriately screened. Also, we reviewed the OIG's annual audit planning process to ascertain if the OIG complied with OMB Circular A-73, Audit of Federal Operations and Programs.

Assessing compliance

The final step in conducting our review of the Commerce OIG involved drawing conclusions as to whether the OIG was satisfactorily complying with generally accepted government auditing standards and other professional standards. To ensure consistency and fairness in the assessment process, we used a team approach. In team meetings, we reviewed, discussed, and evaluated the results of the systems reviews, assignment reviews, questionnaires, and other compliance testing, and we made team assessments based on professional judgment. We assessed compliance on a standard-by-standard basis for the OIG audit and investigation functions. If the OIG complied with a standard in a substantial majority of situations, we considered the OIG in satisfactory compliance with the standard. However, in some cases, we assessed compliance based primarily on the nature and significance of the aspect of the professional standard tested. As discussed in chapters 2 and 3 for audits and investigations, respectively, we did not necessarily test every aspect of every standard. Accordingly, we cannot be certain that our review disclosed all material weaknesses in how the OIG conducts its operations; however, all material weaknesses which did come to our attention are discussed in this report.

THE INSPECTORS GENERAL'S COMMENTSON GAO'S DRAFT REPORT

UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

May 28, 1985

Mr. Frederick D. Wolf
Director
Accounting and Financial Management Division
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Wolf:

I appreciate the opportunity to review and comment on the draft report of your review of my office's compliance with the Comptroller General's and other professional standards for operation of a Federal Office of Inspector General.

We welcome your review as a means to strengthen our audit, investigation, and inspection programs. I accept your recommendations and will see that they are carried out. In most cases, corrective actions already have been initiated based on the information your staff provided to us during the audit. To check on the implementation of these actions, we are increasing our quality assurance efforts, with a particular focus on the adequacy of supervisory reviews by our line managers. Also, we are conducting a comprehensive internal control review this fiscal year of workpaper support for our audit, investigative and inspection processes.

I would like to comment briefly on our inspection program. As noted in the draft report, we started this program in late 1982 as a means of (1) providing greater OIG coverage of Commerce activities with our limited resources, and (2) giving managers current information about problems. One reason we have been able to keep inspections on a relatively fast track is that we do not require their full compliance with audit documentation standards.

We have struggled with this documentation issue. Detailed workpaper support of each finding would impose a time and resource constraint that would defeat the very purpose of inspections. On the other hand, we must assure the reliability of what we report. To achieve an effective balance, we have adopted procedures which supplement documentation as a means of assuring quality. These include:

- o A much-shortened time period (usually less than a week) between the inspection and subsequent reporting of results to agency officials in Headquarters;
- o A requirement that the same individuals who conducted the inspection brief agency officials and draft the report;

- o A requirement that inspectors conduct daily briefings among themselves on progress and findings during the course of an inspection;
- o A requirement that the inspection team leader fully brief the head of the inspected unit and resolve any on-site errors or misinformation before leaving the site;
- o A requirement that findings of an inspection team be intensively reviewed by OIG inspection unit supervisors and by me and/or the Deputy Inspector General before headquarters agency officials are briefed and a draft report is prepared; and
- o The issuance of inspection reports in draft for agency review and comment before issue of the final reports.

We appreciate your candid review of our inspection program and your suggestions for helping us to improve what we believe has been a highly successful effort.

Nobody, not even an IG, likes to be audited. As the subject of a pilot review that would test assessment procedures to be applied later to other OIGs, we initially had a number of particular concerns, e.g., whether such a detailed and prolonged review would affect our work products, how the GAO would address the investigations area with its evolving body of professional standards and its special requirements for confidentiality. I am pleased that the scope and methodology of the GAO review appear to have overcome these concerns.

I am pleased also that we now have an answer to a frequently asked question: who watches the watchdog?

Sincerely,



Sherman M. Funk
Inspector General

GAO Comments: The above inspection procedures, which the IG states were adopted to supplement documentation as a means of assuring quality, were in effect prior to our review, with one exception. The last procedure, calling for agency review and comment, was adopted during our review.

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